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# **China**

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## GENERAL

### Global Strategic Situation Affected by Changes in Europe

90ON0432A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 2, 23 Jan 90 pp 3-5

[Article by Wu Yikang (0124 6318 1660): "The European Situation and the International Strategic Picture"]

[Text] As we bid farewell to the 1980's and cross over into the nineties, the East European nations are going through some sudden, earthshaking changes, that are not only having a fundamental impact on developments in Europe but accelerating changes in the entire international strategic situation. This article seeks to consider the trends of change in Europe to delve deeply into the global strategic question.

### An Integral Progress of Western Europe of Historical Significance

Twelve European nations planned to implement in 1992 a plan first proposed in 1985 to form an integrated major economic marketplace. It has made much progress through the years and, although it may encounter even greater difficulties and detours, the trend is inevitable. There is some question as to whether the 1992 goal can be reached on schedule, but the foundation has been laid and the European Community will continue to march as the world focuses its eyes upon it.

The attraction the European Community has for the nations at its periphery has increased, particularly because of its close relationship to the six European Free Trade Association countries, both major economic combines stepping up their coordinated efforts. In 1984, a joint announcement was made in Luxembourg proposing the forming of an 18-nation "united, vitalized European Economic Community" that would eliminate all trade barriers. In 1989, both sides further announced the formation of a "united organization to exercise common decisionmaking and management functions." After negotiations, a cooperative effort that will have an "even more organized structure" is now in the embryonic stage. If we consider the fact that Turkey, Malta, Cyprus, Austria, and Norway as well as others have applied to join the European Community, then there is little doubt that Western Europe which is the core of the community will play an increasingly important role on the global strategic stage. The integration of Western Europe to such an extent is unprecedented in European or even world history.

### Increased Consciousness for a United Europe

In contrast, the desire of the East European countries to leave the Soviet Bloc seems to be increasing and each day sees a dilution of the desire to be part of a whole. Most recently, six East European countries underwent drastic political changes, indicating a desire to move even faster away from association with the Soviet Union and the

Warsaw Pact. This consensus to leave will step up the disintegration of the systems that resulted from the Yalta Conference and that divided Europe. While it is likely that these countries are in for a long period of political instability and it may be hard to predict the final direction they will take, it is apparent that the result is that no single course will be followed.

Irrespective of this, there seems more and more indication that sentiment for a united Europe is rising, and East and West European countries appear ready to work closer together. Some East European countries have already shown enthusiasm for the "Eureka" plan. Some want to join the Council of Europe and move toward a united Europe. At the same time, European Community Vice Chairman Andriksen [1344 1795 3525 2773] indicated that it would be receptive to the idea of Eastern European countries that "progress through reform" joining a single market. West German Foreign Minister Genscher recently called on the European Community to open wider its doors, recommending that the members build a "model of closest cooperation" that would attract the East as members. European Community Chairman Delors discussed problems from expanding to 22 members, "We can make a 12-nation alliance coexist with a Greater Europe (Seven East European nations and the European Economic Community)." He was confident about the prospects of such a pan-European union that parallels but is not identical to the "greater European mansion" proposal by Gorbachev.

Clearly, however, in the midst of such historical changes, Europe is still searching for a "new kind of structure appropriate for the times."

### Unification of Germany a Hot Item

In the changing Europe of today, the German question is the most riveting and sensitive topic. The changes in the GDR and the collapse of the Berlin wall, Chancellor Kohl's "10-Point Plan," the intensification of debates and discussions in West Germany concerning unification... no one can consider the question a rhetorical one any more. Henry Kissinger once said, "For at least the past 300 years, the German question has been the key to European stability." Memories are still fresh of Hitler's destruction of Europe in the name of Germany, and fear of what a unified Germany might mean is rather widespread in Europe, including the Soviet Union. The minimum effect of such unification would be the dissolution of the two military alliances and dismantling of the systems created by Yalta, forcing the withdrawal of U.S. military forces from Europe, something that might be hard for it to swallow. If existence of a divided Germany has been seen as a factor in the European power balance and moderation, then unification will have a major impact upon the entire strategic picture. The United States, the Soviet Union, France, and Great Britain will undoubtedly continue to have a say on this question.

If unification is decided by external forces, it will also be decided by itself. Most East Germans, regardless of their rank, do not at present appear eager to merge with West Germany. And West Germany does not seem to be totally prepared for it. There are economic questions as well. After considering the current unsettled conditions and the historical realities from World War II, West Germany already feels a need for caution to avoid harm. It may well be the next century before the question is really discussed in earnest.

Yet, in the 1990's, it will be hard to obstruct the continued easing of political rivalry between the two Germanys and their gradual but steady closer cooperation. With easier trade and gradual lessening of tensions, it is quite possible to form some kind of union. However, it will be hard to say whether there will be a formal union.

#### Europe in the Crossfire Between Old and New

With such great changes in European geopolitics, there are major challenges to the established picture of post-World War II Europe. The East-West "rapprochement" has bypassed the goals of the "Eastern policy" formulated by the West European nations in the 1960's and has smashed the set concept of the past few decades of stability through balance. It could only have happened because eased tensions between the superpowers built a basis for it. But now, in turn, it is challenging the two hegemonies even so as to exert influence upon their policies and transfer the focus of U.S.-Soviet rivalry from outside Europe to that continent.

Since the war, the strategic center of gravity of the global superpower struggle has always been Europe. The moderating of the military balance can only heat up political and ideological competition, with Eastern Europe as the boiling point of the struggle. It will not be easy to forecast the direction, shape, discretion, or speed of its development, and it would be even more difficult to predict how it will end. Yet, one thing is certain: Eastern Europe's role as a buffer between Western Europe and the Soviet Union has been weakened. These intensive, turbulent, and largely undeterminable developments add to the instability of Europe. The struggle between social systems and different political forces (including nations) intermingle to contribute further to the complex and acute situation making it hard to block factors that might impede the process of moderation, intensify local conflicts and contradictions and possible intensification of conflict. Europe, which has sometimes been referred to as the "safe, green continent," or at one time, "moderate, green continent," will become the jumpiest world stage for political and diplomatic struggles. It will not be a peaceful or stable land.

It has always been in the common interest of both Europes to maintain stability and peace. West Germany did not anticipate the developments in the East and is hard put to cope, its joy mixing with apprehension. They are afraid that events might be moving too fast and out

of control, but fear Soviet reaction more. French President Mitterrand said recently, "History is moving too fast, it may careen amok and drag us back to the 19th century instead of taking us to the 21st. We must not let the fervor of freedom topple the carriage into a gully." This typifies the sentiments of the West European countries. At the same time, the West needs time to coordinate its policies toward the East. There are paradoxes forcing them to be careful and measured in their steps. We see that the old stability is smashed, its strength is being assailed and divided. To reform and build a new balance of power is not easy. The whole of Europe, including the European Community, is about to enter a new and long era of unstable transition.

#### Changes in the Global Strategic Picture

Such comprehensive structural changes in the European situation will inevitably affect the world situation and the global strategic picture in ways that may be hard to assess.

Western Europe, with the European Community as the core, will be a more prominent player and have more clout. The three centers of capitalism—the United States, Japan, and Western Europe—will tend to balance each other, but their competition and conflict, particularly in economic matters, can only increase, be more complex, acute, and intense.

The progress toward a single European market will also spur the formation of regional combines to form a new facet in the competition of international trade. Such groups will supplant the competition between individual nations.

The superpower status of the Soviet Union will decline and will affect its influence upon the Warsaw Pact and CEMA, making it a more loose connection. In particular, the latter must be revised and reorganized without expelling those who withdraw or let the organization exist only in name. The Soviet Union might not be able to permit the separation of Eastern Europe, but it will not tolerate the area becoming an anti-Soviet base.

The political splintering of the world will accelerate, but the superpowers' influence upon the global strategic picture will lessen. It is inevitable that many poles will supplant the present two, and the future picture will be more complex than ever. At the crossroad of the centuries that is the period of the 1990's, both Europe and the world are in a period of transition, searching for restructure, uncertain and turbulent. It is hard for now to paint an accurate picture, but it is certain that not only will East-West relationships continue to change, but others as well. Peace and progress naturally remain as the main concerns. Moderation and power struggles will coexist overtly or covertly. There will be no world conflict, but the world will be ever more complex, troubled, turbulent, and volatile.

### Improved Soviet-Japanese Relations Seen Likely

90ON0414A Beijing LIAOWANG [OUTLOOK] in  
Chinese No 4, 22 Jan 90 p 41

[Article by Jiang Yuzhe (5592 6276 3181)]

[Text] At a press reception held on New Year's Eve, Japanese Prime Minister Toshiki Kaifu expressed hope that the Japanese and Soviets could continue to have a positive dialogue on concrete issues such as visits between heads of state, and personnel and economic and technical exchanges. The Soviet Union also indicated that its policy toward Japan is "one of its top priorities." Developments in Japanese-Soviet relations have aroused interest.

The main problem in Japanese-Soviet relations is the Northern Territories issue handed down from World War II. In February 1945 the heads of state of the United States, Great Britain, and the Soviet Union signed a secret agreement at Yalta. As a condition of the Soviet declaration of war on Japan, the United States and Great Britain agreed to designate Japan's Kuril Islands to the Soviet Union. The Northern Territories issue presently noted by the Japanese does not refer to the Kuril Islands themselves, but rather to four small islands at the southern tip of the archipelago, Urup, Shikotan-to, Iturup, and Kunashir. The Japanese side contends that these four small islands are inherently Japanese territory outside the scope of the Kuril Islands considered in the Yalta agreement.

Formal diplomatic relations between Japan and the Soviet Union were established in 1956. The territorial issue has all along been a great obstacle to improved relations between the two countries. The "Japanese-Soviet Joint Declaration" regarding the establishment of diplomatic relations clearly says that the Soviet Union will "return Urup and Shikotan-to islands after a Japanese-Soviet peace treaty is concluded." In the early 1960's of tense East-West relations and after a new Japanese-U.S. security treaty was signed, Soviet officialdom consistently held that there was no territorial issue between the Soviet Union and Japan.

Although there is still the territorial issue between Japan and the Soviet Union, both countries have an ardent desire to improve relations.

After several decades of effort, Japan has risen from postwar ruins to become the contemporary world's second "economic power." Economically strong Japan is unwilling to occupy political and diplomatic "second country" status. It hopes to play a "political power" role internationally. In the past year, there has been a great improvement in relations between the Soviet Union and Western countries. As a member of the West, Japan has clearly felt that it is far behind the Western alliance on the Soviet issue. Economic relations between Japan and the Soviet Union have been at a consistently low level. Japanese trade with the Soviet Union accounts for only about two percent of total Japanese foreign trade. This

level of trade does not match with that of other countries. Japan is a country "founded on trade." Developing foreign trade is of great significance to Japan. Moreover, it relies on imports for more than 95 percent of its energy resources. Japanese enterprises long ago became interested in nearby Soviet Siberian energy resources.

Considering its own self-interest, the Soviet Union must improve relations with Japan. Since Gorbachev came to power, there has been no clear improvement in the Soviet domestic economy and it has met with many problems. Higher prices, low enterprise efficiency, and serious shortages of daily consumer goods are all problems facing Gorbachev that must be solved. It is absolutely necessary to improve the domestic economic situation and attract Western technology and capital. Japan is currently the world's top creditor nation. It runs neck and neck with the United States in technology, particularly applied technology. The Soviet Siberian economy is backward, so it hopes Japan can provide technology and capital and participate in the area's development. Because of the territorial issue, Japan has not yet provided any solid technological or financial assistance. In addition, improving relations with Asian countries, particularly with Japan, is in line with the needs of the Soviet Union's global strategy.

In the past year both Japan and the Soviet Union have been groping for ways to improve relations.

The Soviet Union has made a few concessions. It has changed its former basic attitude of refusing to acknowledge that there was a bilateral territorial issue. In an official bilateral announcement of the two governments, the Soviet Union agreed to use the words "issues handed down from World War II" between the two, indirectly acknowledging that a bilateral territorial issue exists. The Soviet Union hopes to shelve the issue and conclude a peace treaty with Japan to expand economic cooperation. Soviet press reporters and scholars have continuously dropped "exploratory balloons," proposing plans to solve the territorial issue such as "returning two islands," "joint management of four islands," and "return of two islands and joint management of two islands." During the November 1989 visit to Japan by Soviet Politburo member Yakovlev, besides Soviet and Japanese proposals to resolve the matter, he indicated that there was still a "third way." Yakovlev explained this by saying: "We can enhance mutual trust and understanding to expand bilateral relations. Supposing that we do so, then all issues can be readily solved [split a bamboo all the way down once it's been chopped open]. This is the third way." The Soviet Union is still trying to expand economic, cultural, and scientific exchanges with Japan. It plans to open up the Far East as a special economic zone to attract investment from Japanese enterprises. In addition, the Soviet side has revealed that Gorbachev plans to visit Japan in 1991. Japan's JIJ wire service holds that Gorbachev's decision to visit Japan indicates that the axis of the Soviet Union's Asian strategy has turned toward Japan. These series of Soviet postures are undoubtedly intended to

have Japan make some concessions in order to break the long-term stalemate of both sides refusing to yield on the territorial issue.

There is enough to reckon on that the Japanese Government is in difficulty regarding this issue. It is not merely a bilateral issue, but also relates to the designation of borders between the Soviet Union and other countries. Japanese authorities acknowledge privately that it is practically impossible to ask the Soviet Union to return the four northern islands. Although this is so, in the past year, the Japanese Government and some important people in the Liberal Democratic Party have continued to visit the Soviet Union and have invited high-level Soviet officials to come to Japan. Still, Japan has not at all relented on the territorial issue. It steadfastly wants the Soviet Union to return the four northern islands, refusing Soviet proposals to pigeonhole the issue, sign a peace treaty, and develop economic cooperation. Japan has indicated that it cannot separate the territorial issue from economic cooperation. The two countries can cooperate economically only after a Japanese-Soviet peace treaty has been concluded.

Regarding Soviet matters, Japan must still more or less consider the United States because, although U.S.-Soviet relations continuously are improving, the United States maintains a high degree of vigilance over developments in Japanese-Soviet relations. Without a doubt, if Japan and the Soviet Union take up together, it will hurt U.S. interests in Asia. According to reports, in 1989 when Japanese former Prime Minister Noburu Takeshita visited the United States, Bush expressed concern about developments in Japanese-Soviet relations. People in the United States also are worried about the matter. As Japanese-U.S. relations are becoming increasingly tense, if Gorbachev really does visit Japan it may turn Japanese public opinion closer to the Soviet Union and farther away from the United States, thereby casting a shadow on the Japanese-U.S. security relationship.

In sum, Japanese-Soviet bilateral relations will continue to develop. If Gorbachev visits Japan in 1991 and makes a compromise proposal that Japan can accept on the Northern Territories issue, then the two countries may sign a peace treaty, accelerating the pace of developing relations.

### **XINHUA Covers Negotiations Over German Reunification**

*OW1303155290 Beijing XINHUA in English  
1448 GMT 13 Mar 90*

["Analysis" by Li Zhongfa: "Problems Ahead for 'Two-Plus-Four' Talks on a Reunited Germany"]

[Text] Bonn, March 12 (XINHUA)—With the official talks now started in Berlin between East and West Germany and the approach of the March 1 meeting in Bonn of experts from both countries plus the Soviet

Union, United States, Britain and France on the "external factors" of German reunification, the famous "two-plus-four" proposal has begun to be implemented.

Under this proposal, which was decided on in Ottawa last month by the foreign ministers of the six countries, "internal factors" concerning German reunification will be first discussed by the two Germanys and the "external factors" by the six parties together.

It immediately aroused strong opposition from European nations that found themselves excluded from the reunification process which they see as having a great bearing on their security.

In the month that has followed the Ottawa decision, the leaders of these countries have aired their views and raised a variety of suggestions on the unification process. All this indicates that the "two-plus-four" proposal will meet a whole series of problems as it is put into effect.

First, unification or annexation. East [as received] German Chancellor Helmut Kohl had thought that as the provinces of East Germany joined West Germany independently according to the stipulation in Article 23 of its Basic Law, then this would complete the process of reunification.

This opinion, implying that West Germany's Basic Law could be applied in East Germany, was naturally opposed by the East Berlin government.

East German Premier Hans Modrow noted that the two Germanys should be reunified, not merged or annexed by either one or the other.

For East Germany, the ideal way to reunification is seen as a step by step process, instead of a simple incorporation of East Germany into West Germany.

Modrow stressed that an economic and monetary union between the two Germanys should not be set up in a hurry since full preparations for this were in his view indispensable.

Modrow also stated the position that Bonn should provide full legal guarantees for East Germany's current system of ownership for which demand, he said, Moscow's backing had been requested.

Moscow has given full support to East Germany's position on reunification. Soviet Foreign Minister Eduard Shevardnadze has criticized some forces in West Germany for attempting to impose its Basic Law on East Germany.

Their plan was factually to "annex" East Germany, Shevardnadze said, adding that it "disdains the sovereignty and Constitution of Democratic Germany."

He stressed that the German unification must be realized according to the "real will of all German people."

Secondly, to recognize or deny the existing borders in Europe. Recently, a dispute arose between West Germany and Poland over Poland's western borders.

Poland has sought the finalization of these borders with Germany along the Oder-Neisse River line by a draft treaty before the reunification of the two Germanys. But the Kohl government was reluctant to give Warsaw such a guarantee.

The dispute has abated with the adoption of a resolution by the West German parliament recognizing the western borders of Poland, but the issue is far from being solved. Poland still doubts Bonn's sincerity, since its demand for a draft treaty has not been met.

Thirdly, status of a reunified Germany. Whether a united Germany, occupying an extremely important position in Europe, remains in the North Atlantic Treaty Organization (NATO) or becomes neutral is a matter of great concern to both NATO and the other major military bloc, the Warsaw Pact.

Moscow and East Berlin hope that that a reunited Germany will withdraw from both blocs and become neutral.

Soviet leader Mikhail Gorbachev is strongly opposed to a NATO-controlled united Germany, saying that it would damage the equilibrium and security of Europe and would be detrimental to the establishment of mutual trust.

East Germany maintains that the "cold war" would continue if a reunited Germany was in NATO.

For his part, Kohl is insisting that a reunited Germany be neither neutral nor demilitarized. It was "a life-and-death matter" for a united Germany to remain within NATO, he states.

Washington and other NATO members also favour keeping Germany in the bloc. But considering Moscow's security interests, they agree that the territory of the present East Germany enjoy a "special military position," for a certain period.

The East German Government points out that it is unimaginable that the western side of a united Germany is deployed with NATO's nuclear missiles, while its eastern side is piled with Soviet-made nuclear weapons.

Fourthly, finding ways to relieve Germany's neighbours of their fears of a military threat.

Although Kohl has pledged that Germany will never again start a war and "only peace will be produced on the soil of a reunified Germany," European countries, especially Germany's immediate neighbours who suffered so much in the Second World War, can not discard their anxiety over a potential military threat posed by a reunified Germany.

Britain and France have suggested that a restriction should be imposed on the military power of a united Germany. The Soviet Union has stressed that the German threat must be eliminated by all means, now and forever.

Apart from the above issues, the "two-plus-four" talks must also involve such issues as what means would be used against German militarization and the revival of Nazism, the commitments of the four victorious allied states to Germany and the war penalties to be borne by the latter.

The reunification of Germany is a comprehensive issue and the complexities involved in the contradictions and conflicts over the negotiation table are being played out in the full light of intense world interest.

## UNITED STATES

### Assessment of U.S. 'Beyond Containment' Strategy

90ON0411A Beijing GUOJI WENTI YANJIU  
[INTERNATIONAL STUDIES]  
in Chinese No 1, 13 Jan 90 pp 10-18

[Article by Pan Tongwen (3382 0681 2429): "Initial Analysis of the Beyond Containment Strategy"]

[Text] The basic idea of the beyond containment strategy is that the United States, while preventing expansions by the Soviet Union, will at the same time take advantage of the reform in the Soviet Union to adopt a variety of measures in which economic aid is used as bait to spur changes in the Soviet Union, and in the end have the Soviet Union merge into the Western system.

The special characteristics of the beyond containment strategy are: Not to completely give up containment, but to impart to it greater offensive character, and, moreover, attach to it certain conditions.

Implementation of this strategy is determined, on the one hand, by the national strength of the United States and by coordinated action on the part of Western Europe and, on the other hand, is dependent on the degree of tolerance and restraint shown by the Soviet Union.

U.S.-Soviet relations are the primary problem in the foreign relations of the Bush administration. For the purpose of exploring what opportunities are opening up for the United States in Gorbachev's "new thinking," and to consider "from the angle of longlasting U.S.-Soviet relations" how these opportunities may be exploited, the Bush administration, immediately after coming to power in January of last year, initiated an overall review of U.S. policy toward the Soviet Union. On the basis of this review, Bush spoke on 12 May at Texas A&M University on the subject of U.S. policy toward the Soviet Union and put forward the beyond containment strategy, indicating that this will be U.S. policy toward the Soviet Union throughout the 1990's. A



high-ranking official of the National Security Council of the Bush administration declared that the beyond containment strategy "is the positive reaction to the reform in the Soviet Union and a fundamental change of concept in postwar U.S. policy toward the Soviet Union." Scowcroft, national security adviser of the Bush administration, said that the Bush administration's purpose in formulating its beyond containment strategy is "to make it known that in the coming few years it is possible that the policy of mutual containment will be changed to a policy of cooperation with the Soviet Union."

In his speech at Texas A&M, Bush, for the first time since assuming office, gave a comparatively systematic statement on his policy toward the Soviet Union. Its essential points were: The policy of containment has been effective, but the time has now come to formulate for the 1990's a new "beyond containment" policy toward the Soviet Union. The objective of this policy is to go far beyond a mere containment of Soviet expansion, as this new policy strives to achieve entry of the Soviet Union as a member of the international community. The United States hopes that the Soviet reforms will have the Soviet Union completely break with its past. The West should encourage the Soviet Union to develop in the direction of an open society, institute a permanent political pluralism, and fully respect human rights. If the Soviet Union will pass a new immigration and emigration law, the United States will grant it most-favored-nation status. The military strength of the Soviet Union is frightening and it forces the United States to maintain its own strength to enable it to prevent Soviet expansion.

The above clearly shows that the basic ideas of the beyond containment strategy are that the United States will maintain its military power to prevent Soviet expansion, but will at the same time take advantage of the opportunity offered by the reforms in the Soviet Union, will make full use of present U.S. superiority, will employ primarily economic, political, cultural, and ideological measures, in particular economic measures as bait, when urging the Soviet Union to institute "political pluralism and a free-market economy," and to finally have the Soviet Union merge into the Western political and economic system.

After his Texas speech, Bush spoke again on foreign policy in May at Boston University, at the U.S. Coast Guard Academy in Connecticut, and at Mainz in the FRG, and he further elucidated the beyond containment strategy. From these speeches we can gather the following to be special characteristics of this strategy:

1. The beyond containment strategy does not completely abandon containment, but is an extension and development of containment.

Bush fully approves of the containment policy. He emphasized that it was particularly due to the "wisdom" of the containment policy that the Soviet Union turned its attention to its internal problems and relaxed its

external expansion. The main reason for the effectiveness of the containment policy was that the United States and the West always maintained powerful military strength. It is for this reason that the United States must also in future remain strong and must continue to deal with the Soviet Union from a position of strength. He referred repeatedly to the "frightening" military strength of the Soviet Union and the Warsaw Pact, which is a cause of great anxiety. On the one hand, he said Gorbachev's reform and openness are providing a "historical opportunity for improved U.S.-Soviet relations, but, on the other hand, he also said that Gorbachev's new thinking "has not yet totally overcome old thinking," that the reform in the Soviet Union "is still incomplete," and that there is no guarantee how long Gorbachev will be in power and whether his successors will or will not return to the old line of confrontation. It is for these reasons that the United States must remain prepared. Bush said, "We hope for a 'beyond containment' phase, but we are now still at the start of the new course. Ahead of us are many dangers and unpredictable factors." This reflects Bush's caution and anxiety when proposing his beyond containment strategy, and that he has not yet completely abandoned the idea of containment.

2. The beyond containment strategy has a character of heightened aggressiveness.

The main purpose of the containment policy pursued by the United States during the past 40 years was to restrain and, by encirclement, block the power and influence of the Soviet Union, or, as in the Reagan years, to "push back" any expansions already carried out by the Soviet Union. The United States was then fighting a "war against the outer defense perimeter," with the focus on the fight for the Third World. The beyond containment strategy, on the other hand, aims directly at the Soviet Union itself and at its power, with the objective of having it "merge" with the West; the fight is now one of "war against the core of the enemy." The containment policy had mainly adopted military means along a hard line, as shown in a state of tense confrontation. The beyond containment policy, on the other hand, employs mainly nonmilitary means, along a soft line, manifested in more covert forms, but actually with an even more aggressive character. Bush said that the objective of his beyond containment policy is "courageous and highly ambitious," to an extent which his predecessors could hardly have imagined. This seems to imply the true meaning of his strategy. An American scholar once explained the beyond containment policy as a "true policy of liberation," and this very pertinently points to its essential character.

3. According to the present realities of the situation, the beyond containment policy is conditioned on certain factors, it attempts to take advantage of the reform in the Soviet Union, and adopts a soft as well as a hard line, forcing the Soviet Union to compromises and concessions of real substance.

Bush's advisers have clearly indicated that the gradual implementation of the beyond containment policy is absolutely conditioned on reciprocal action on the part of the Soviet Union. Actually, it expects the Soviet Union to effect compromises and concessions, willed by the United States as a price to be paid for the beyond containment strategy. Bush has pointed out that he hopes that the reform in the Soviet Union will "lead to having the Soviet Union effect a total break with the past," and he additionally named five areas in which he wants the Soviet Union to take positive steps "toward cooperation with the United States." These are reductions in the Soviet armed forces, support for self-determination in all East European countries, earnest efforts to resolve regional conflicts, instituting enduring political pluralism and respect for human rights, and joint action in such global problems as the suppression of the international drug trade and the preservation of the world's natural environment. These are areas within the purview of U.S.-Soviet relations, but also comprise some purely internal Soviet problems. That Bush should put forward these demands indicates that his beyond containment strategy is not without requiring certain conditions. Soviet Foreign Minister Shevardnadze was rather unhappy about that. In a PRAVDA interview on 20 May he said that he was "shocked" by the tone of Bush's speech of 12 May, because it had "a touch of a certain old-type ideology, and in some places a tendency to lecture to people like a schoolmaster."

Initiation of this beyond containment strategy has had a deep-rooted and variegated background.

1. It is a product of the relaxation in U.S.-Soviet relations.

Since 1985, a relaxation has set in in U.S.-Soviet relations. It became very obvious in 1988 when the two countries signed an agreement for the elimination of medium-range missiles, and very substantial improvements in the relations between the two countries also occurred in other areas. With the improvement in U.S.-Soviet relations, the cold war, which had lasted for as long as 40 years, was about to end. Under these circumstances, widespread public opinion in the United States, the opinions of almost all influential policy research organizations, and of a considerable number of political personalities in the United States demanded a readjustment of U.S. foreign policy, in particular toward the Soviet Union. In its editorial of 2 April 1989, THE NEW YORK TIMES pointed out that the cold war was over, that "U.S.-Soviet relations have entered a new era," that the Bush administration must "make a determined effort," "to exploit the opportunity provided by Gorbachev's new thinking, an opportunity that had never before occurred since 1945, to actively influence developments in the Soviet Union." In the foreword to the institution's collection of articles published 1989 under the title *Restructuring American Foreign Policy*, John D. Steinbrunner, director of Foreign Policy Research Planning at the Brookings Institution, said that, due to the relaxation of international relations, "a new formulation

must replace the old ways of thinking that dominated American concepts and determined U.S. policy for two generations." "Containment of the expansion of the Communist Bloc is no longer the primary security concern." Even the U.S. senior statesman who first formulated the policy of containment, Kennon, also came forward, calling on the Bush administration to formulate a new policy toward the Soviet Union, when he testified on 4 April 1989 before the Foreign Affairs Committee of the U.S. Senate. He emphasized that "the time has passed when the West regarded the Soviet Union as the main potential adversary"; now the Soviet Union must be regarded as a large country just like all other large countries. "There is no serious conflict between the objectives pursued by the Soviet Union and those pursued by the United States. There are no problems that cannot be solved through regular methods of compromise and mediation." In brief, during the first half of 1989, a high tide of relaxation had arisen, compelling the Bush administration to adopt a new policy toward the Soviet Union. It was under these circumstances that the beyond containment strategy came into being.

2. It is the result of the United States finding itself at an advantage in a comparison of strength with the Soviet Union.

Since the beginning of the 1980's, the United States has strengthened its military preparedness, and since 1982 its economy has also shown a tendency of growing strength. By the mid-1980's the position of the United States had begun to change from one of inferiority, as during the 1970's, to one of superiority in a comparison of U.S.-Soviet strength. This superiority had become particularly evident during the last years of the Reagan administration. Bush has inherited the favorable position left by the Reagan administration. Since 1989, because of the failure of Gorbachev's domestic reforms, the economic difficulties of the Soviet Union have increased with each passing day, and in addition, turmoil erupted in Eastern Europe in the course of their reforms, so that the favorable position of the Bush administration became increasingly evident. It was precisely this situation that prompted views to be expressed recently in the United States along such lines as "the Soviet Union is about to collapse," "the situation is still in the process of developing according to the desires of the United States," and "communism is in the throes of death." Bush is extremely pleased with the advantageous position of the United States in the comparison of U.S.-Soviet strength, and he said quite openly in his speech at the Coast Guard Academy in Connecticut that, as we are witnessing the "last chapter" of the communist experiment and also have the "unprecedented strength" of the United States and its allies, "we have the precious opportunity to implement a policy that goes beyond containment."

3. The Impact of a changed security concept in the United States.

In the last few years, the declining threat from the Soviet Union, together with intensified international economic competition, have brought about a change in the security concept of the American people. Many believe that the 40-year U.S.-Soviet arms race and confrontation, with the resulting huge burden of U.S. military expenditure, have hindered U.S. economic development and have created today's grave economic competition and challenge from Western Europe and Japan now faced by the United States. The security concept of the people is therefore one that goes beyond the containment of communism, and is one in which concern over a military threat is gradually being replaced by concern over the economic threat. More important, by the end of 1988, the U.S. Government too has evolved "new thinking" in its security strategy. According to their "new thinking," the excessive burden of military expenditure and heavy external indebtedness have weakened the very foundations of the U.S. economy and impaired development of overall national strength, a situation that demands change. The focus of future U.S. security strategy must, therefore, be shifted to the fierce economic competition in the world. A former secretary of state, Cyrus Vance, said in an article published in *NEWSWEEK* in the first half of 1989 that "The red threat from the Soviet Union has yielded place to the threat from Japanese nationalism, and the United States should now seek much more common ground with the Soviet Union." To a certain extent, this is also the view of the Bush administration. The "new thinking" in the security strategy of the U.S. Government has certainly something to do with the emergence of the beyond containment strategy.

#### 4. The positive attitude of Western Europe acts as a further impetus.

Due to reasons of cultural history and geography, the attitude of the West European countries toward the United States differs from their attitude toward the Soviet Union. Especially after Gorbachev launched a series of diplomatic peace offensives against Western Europe, the difference has become very evident. Because of the transformation of West European attitudes toward the Soviet Union and Eastern Europe, Western Europe's more positive attitude, its hope of accelerated development of relations, and its disregard of U.S. warnings in the last year or two against efforts to outdo each other in initiating relations with the Soviet Union and Eastern Europe, each West European country is now going its own way, even urging the U.S. Government to use every opportunity to promote closer East-West relations. All these facts amount to strong pressure on the United States, a pressure that increased further after the Bush administration came into office. To maintain its leadership in the Western alliance and to preserve unity of action among the Western alliance, the Bush administration is compelled to accede to some of the West European proposals and to appropriately adjust its policy toward the Soviet Union. The timing of Bush's Texas speech before the NATO summit at the end of May seems to have had its reason. It has furthermore been

learned that before coming out with his beyond containment strategy, Bush had consulted his Western allies. After Bush proposed at the NATO summit a reduction of conventional forces stationed in Europe, in his speech at Mainz in the FRG he again put forward a four-point proposal to implement his beyond containment strategy, which was apparently welcomed by the Western allies, and which, furthermore, appears to have had the purpose of strengthening U.S. leadership among the Western alliance and to consolidate mutual relations between its members.

The beyond containment strategy proposed by Bush is, as one member of the U.S. Security Council expressed it, meant only to be "a long-range strategic objective." In its concept it is somewhat sweeping and it lacks specific content as well as a plan of action to attain its objective. At that time, U.S.-Soviet relations had been at a standstill, but since this strategy was put forward, the situation has changed greatly. U.S.-Soviet relations have become distinctly invigorated and have also further improved. Bush's attitude toward Gorbachev has changed from suspicion, from a wait-and-see attitude, to active support. During all this time, Gorbachev's position has been deteriorating with every passing day, and rapid changes and turmoil have occurred in Eastern Europe. This situation has gradually added substance and specificity to the beyond containment strategy. From Bush's Texas speech on 12 May to the two important speeches by Baker on 16 and 23 October, we can get an idea as to the objectives which the beyond containment strategy intends to achieve, namely:

#### 1. It demands of the Soviet Union that it support self-determination for all East European countries.

This is a key objective which the beyond containment strategy presently wants to achieve. Bush attaches great importance to Eastern Europe. He regards it as "an area of great opportunity" for the West and considers "the changes that are now occurring there as indeed of historic significance." Baker quite frankly said that the Bush administration's policy toward Eastern Europe is, as Bush has pointed out, to establish, through encouragement and support of reforms in Eastern Europe and by uniting Europe on the basis of Western value concepts, a "completely free Europe" and "a complete and free Europe, the importance of which would exceed all military controls and disarmament. The Bush administration therefore demands of the Soviet Union "a clear break with the Brezhnev doctrine" and support for the reforms in Eastern Europe, emphasizing that this would indeed be the touchstone to test Gorbachev's "new thinking." The Bush administration has indicated that it will support the progress of reforms in Eastern Europe without exercising oppressive means, that it will encourage with economic aid such countries as Poland and Hungary, which, in the opinion of the United States, have carried their reforms forward in great depth, and that it will not take advantage of the transformations in Eastern Europe to threaten the security of the Soviet Union. At the same time, the Bush administration

demands of the Soviet Union a maximum of tolerance and restraint. The Bush administration considers the tolerance and restraint so far shown by the Soviet Government as "beyond expectations," but there is absolutely no guarantee as to whether these attitudes have a limit. It seems that this will be a major topic at the informal U.S.-Soviet summit on Malta. In a talk from Camp David shown on TV, Bush recently indicated that he will try to obtain from Gorbachev an assurance of continued reforms in Eastern Europe. For both the United States and the Soviet Union, Eastern Europe is an extremely important region, but also a very sensitive region with an explosive potential. The area is now experiencing the most turbulent time since the war. Neither the United States nor the Soviet Union would wish that the situation there will get out of control and lead to a regression in East-West relations. Both sides, therefore, make efforts in a search for "common points of mutual interest," and to reach some kind of understanding and tacit agreement.

2. It urges the Soviet Union to reduce its military strength.

To be able to concentrate all its energy on the solution of its domestic problems, the Soviet Union is quite willing to arrive at some arms control agreement, and, in fact, has already agreed to some compromise. The Bush administration, it seems, has decided to use the arms control talks to weaken the military strength of the Soviet Union so as to reduce or eliminate the Soviet military threat. Bush emphasized that the Soviet Union should reduce its armed forces to whatever level would be appropriate for its security requirements and to a level that would represent a minimum threat. Baker believes an arms control agreement could lighten the Soviet burden of defense expenditures, and that the Soviet Union could benefit from a substantial "peace dividend" by arriving at an arms control agreement, and that for this reason the United States can pressure the Soviet Union to conclude some agreement. At the foreign ministers' September meeting in Wyoming, the Soviet Union already made a few concessions and thereby laid the foundation for a reduction of strategic nuclear weapons and conventional weapons. The economic and financial situation of the United States also urgently demands a reduction in military expenditures, so that it is possible that the United States and the Soviet Union will indeed reach an agreement this year. Because of the needs of both the United States and the Soviet Union, and because of the added element of international pressure, the United States and the Soviet Union will be able to make continued progress in arms reductions, and both sides will maintain an equilibrium in military strength at a level that is as low as possible.

3. It demands that the Soviet Union cooperate with the United States in resolving regional conflicts in the world.

Bush believes that Gorbachev's "new thinking" still contains some quite old policies, mainly in matters of regional conflicts. He demands of Gorbachev that he

continue efforts to "produce positive and feasible steps, not only verbiage" to solve such "hot spot" problems as Central America and the Middle East, especially the "hot spot" problem of Central America. In his testimony before the Senate Finance Committee on 4 October 1989, Baker indicated that Gorbachev needs a stable international environment so that his country can concentrate its energies on the solution of problems in its domestic reform, and that he therefore needs to resolve regional conflicts. In this respect, the United States could help him. He furthermore said that "the United States is ever more strongly emphasizing cooperation with the Soviet Union, to make joint efforts to resolve dangerous regional conflicts that have broken out all over the world, and that at the level of experts and of ministries, the United States and the Soviet Union "regularly study opportunities to gain peace and peaceful solutions in all hot spots. However, the fact that the Soviet Union "renders military support in many regional conflicts causes great disappointment for us." Obviously, the Bush administration demands further compromises and concessions from the Soviet Union in the matter of solving regional conflicts.

4. It urges the Soviet Union to institute permanent political pluralism and to observe human rights.

With an extremely strong emphasis, Bush urged the Soviet Union to establish an open society with political pluralism, because "a pluralist system will strengthen the foundation for the success of the Soviet reform, and will make it impossible to reverse the results of the reform." Baker said that the U.S. Government can help the Soviet Union "establish an even more extensively opened-up society," and "convert the Soviet Union into an even more cooperative country that can make abundant contributions to the international community." He listed the "core value concepts" of the United States as being democracy, self-determination, regard for the rights and freedom of the individual, and economic freedom. He indicated that "it would be a welcome event if the Soviet Union would draw closer to these value concepts." Bush and Baker demand of the Soviet Union that it continue to respect human rights, and both have repeatedly clearly stated that if the Soviet Union would promulgate an immigration and emigration law that meets international standards, the Bush administration would make efforts, together with the Congress, to temporarily stop the Jackson-Vanik amendment, in order to pave the way for granting the Soviet Union most-favored-nation status in trade.

5. It demands that the Soviet Union institute a free-market economic reform.

Baker has clearly indicated that in the Soviet Union's economic reform "it is crucial that it be determined to the greatest extent by the introduction of market prices." It would therefore be necessary to institute price reform and carry on a thorough market economy. He agreed that the United States would give assistance and support by making U.S. experiences available to the Soviet Union if

it were to institute complete economic reform. A short time ago, Alan Greenspan, the chairman of the U.S. Federal Reserve Board, visited the Soviet Union to give advice. At the foreign ministers' September meeting in Wyoming, the parties discussed the problem of economic reform in the Soviet Union, and both sides plan to continue this type of discussion and to make them part of the discussion of problems by the bilateral problem working group. It was the first time in U.S.-Soviet relations that internal problems of one country were discussed. It reflects the urgency with which the United States urges the Soviet Union to move completely to a market economy. Moreover, Baker also emphasized that the Soviet Union's reform of its domestic economy is an important precondition for the strengthening of its international economic contacts. The Bush administration hinted that the United States may drop its opposition to Soviet participation in the World Bank, the International Monetary Fund, and GATT, all of which, of course, depends on the way the Soviet Union conducts its economic reform.

Apart from the above-mentioned five objectives, another objective that the beyond containment strategy pursues is to have the Soviet Union cooperate with the United States in solving some global problems, such as the suppression of the international drug trade and preservation of the world's natural environment.

It must be pointed out that the beyond containment strategy put forward by Bush is to some extent also the common strategy of the entire West in its relations to the Soviet Union, because this strategy is not only approved by the allies of the United States, but depends for its implementation to a large extent on these allies. After Bush made known this strategy on 12 May of last year, the NATO summit held in Brussels at the end of May for the first time came out with "a program for joint action" in dealings with the Soviet Union and the East European countries, deciding to further intensify contacts between NATO and the East European countries, trying to further infiltrate Eastern Europe with ideas on human rights and democracy, and to gradually change the political system of Eastern Europe. In economic aspects, NATO will take advantage of the reforms in Eastern Europe to intensify contacts, and will use economic means to induce the East European economic system to shift to the Western track. During his visit to Poland and Hungary in July, Bush agreed to render economic assistance, which later actually will be assumed by the EC. At the seven-nation Western summit in Paris in the middle of July, an item of special importance was the discussion of the East European problem and the coordination of the peaceful developmental strategy of the seven countries with regard to the Soviet Union and the East European countries. The conference specially published a "Statement Regarding Coordinated Action in Economic Assistance to Poland and Hungary," emphasizing that the West will not allow Eastern Europe's economic difficulties to impair the political reforms in those countries. The conference also decided to have the EC take the lead

in calling within a few weeks a coordinating conference on assistance to Eastern Europe, and reached agreement on four suggestions for the support of economic reform in Poland and Hungary. Bush highly acclaimed all these resolutions. The coordinated action of all U.S. allies in promoting the beyond containment strategy indicates that the West pursues a common overall objective with its beyond containment strategy, and also indicates the insufficiency of U.S. strength, especially economic strength. Obviously, it is absolutely impossible for the United States today to launch a second "Marshall Plan" for the benefit of the Soviet Union and Eastern Europe. The fact that the Western allies are coordinating their action with the United States is beneficial for the promotion of the beyond containment strategy, but Western Europe does not altogether agree in all its policies with U.S. policy toward the Soviet Union and Eastern Europe. This will in future also restrict U.S. attempts to incorporate the beyond containment strategy into the policies of those countries.

Apart from the two restrictive elements of insufficient financial strength of the United States and differences between West European and U.S. policies on the Soviet Union, the Soviet reaction to the beyond containment strategy will in future directly affect the execution of the strategy. Because the Soviet Union is presently facing the most difficult situation since the start of its reform, and since this situation cannot be tangibly improved within a short time, it seems the Soviet Union will continue to strive for further improvements in its relations with the United States, and will continue to show tolerance and restraint toward the beyond containment strategy. However, Soviet tolerance and restraint will after all have a limit. Moreover, the Soviet Union as a superpower must also uphold its own dignity. The Soviet Union has already reacted to some excessive acts of the Bush administration. The Soviet Union has demanded that the West adopt a "responsible attitude" in matters of Eastern Europe, and must not incite the people of Eastern Europe by "exporting capitalism." The Soviet Union emphasized that if one were to mistake the gradual elimination of Europe's disunity as "victory over socialism," that would give rise to a new East-West confrontation. When the U.S. Senate passed a resolution regarding the Nagorno-Karabakh problem in the Soviet Union, the Soviet Ministry of Foreign Affairs on 19 November 1989 lodged a protest against U.S. interference in internal Soviet politics and pointed out that any such conduct amounts to reviving the "cold war." It can be expected that the Soviet Union will still react to future acts of interferences by the U.S. Government in the internal politics of the Soviet Union. Moreover, implementation of the beyond containment strategy will also be affected by whatever changes occur in the internal affairs of the Soviet Union.

The beyond containment strategy is still in the stage of development and completion, and is also subject to restraint from a variety of uncertain factors. Its pursuit will certainly not be smooth sailing all the way. Because

the United States and the Soviet Union each has its own difficulties and needs for each other, there will be continuous progress in the foreseeable future as far as dialogue and cooperation between the Soviet Union and the United States are concerned. However, the "points of mutual benefit" for the two parties have some limits. The two sides will in future still be each other's major adversaries, and in their relations there will be much contradiction and struggle, but although there will be contradictions and mutual contention, the forms that these will take on will be quite different from what they had been in the past.

### Pragmatic Realism Advised in U.S. Policy

900N0429A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 2, 23 Jan 90 pp 8-9

[Article by Liu Lieli (0491 0441 0536): "The Best China Policy Is Pragmatism—A Look at the Historical Background of the Pragmatic U.S. Diplomatic Policy Toward China From the Chinese Standpoint"]

[Text] Early last November, Mr. Nixon and Professor Kissinger successively visited China and exchanged views with China's leadership, demonstrating a definite urgency on the part of some U.S. Government and public members to want to heal the wounds stemming from the "4 June" incident. It also reflected the belief by Nixon and Kissinger that the realistic or pragmatic policy toward China was still useful and should continue to be the guiding principle for relations between the two countries.

The recent series of actions of the Bush administration concerning Sino-U.S. relations, including the dispatch of former high-ranking officials of the Nixon administration, and current National Security Adviser Brent Scowcroft and Deputy Secretary of State Lawrence S. Eagleburger on a secret visit, all point to an intention on the part of the current administration to continue a policy based on pragmatic principles.

Nixon and Kissinger are skilled pragmatists, they took a new look at international strategy, and in the 1970's decisively broke out of the diplomacy of the "cold war" era to become the architects of the first policy built on a realistic foundation since the end of the Vietnam conflict. No doubt this had been done to attain and protect for the United States its highest national and global strategic interests. But one of the reasons that this was possible was the fact that an ever stronger People's Republic of China and Chinese Communist Party, preserving the dignity of the nation and refusing to bow to foreign pressure, had led the United States on to such a course. It is also basically why the U.S. Government has now adopted such a pragmatic approach.

In the late 1960's, the economic and political strength of the socialist nations, particularly China, has greatly grown, drastically altering the political picture and the balance of power in the world. Acknowledging this in a speech given on 6 July 1971 in Kansas City, President

Nixon referred to the rise of China as well as of Western Europe and of Japan and concluded that there were now five centers of world power instead of the two at the close of World War II. These five centers, including Mainland China, would determine the economic direction to be taken by fully one-third of the world after the close of the 20th century. And since "economic power is the key to all power, these five centers would determine the direction to be taken by the whole world." Nixon pointed out that "China exists outside the family of nations and goes its own way. Its leaders have no communication with the others' leaders. This is a dangerous situation for the world. It is not acceptable to us, and it is not acceptable to anyone else." And since the time Kissinger became national security adviser to Nixon in 1969, he had separately but similarly expounded at length on the subject. Because Nixon and Kissinger foresaw at almost the same time that the world was about to undergo major changes and the United States would lead the way by concluding that cold war ideological considerations were to be a thing of the past, they began drafting a brand-new set of diplomatic initiatives and policy based on pragmatism. Thus, in July 1971, Nixon secretly sent Kissinger to China, taking the initiative to end the long period of hostility and isolation of China. After this key first step of pragmatic conciliation in Sino-U.S. diplomatic relations, the United States could finally pull itself out of the bitter quagmire that was Vietnam. Under the guidance of the Nixonian diplomatic policy based on a pragmatic philosophy, the U.S. Government did a major reshaping of global strategy, and only then could it soften the impact of its foreign and domestic crises.

The prestige of the United States dropped further during the Ford and Carter administrations, leading to the emergence of Reagan's conservatism which actively promoted a foreign policy of "containment," of "pushing back" the ever stronger power of socialism.

As history marches into the first year of the post-Reagan era, the United States once again faced a choice between "realism" and "rigidity."

In the aftermath of the "4 June" incident, the Chinese Government resolutely stood off the uncalled for recriminations of the Western nations led by the United States and concurrently pointed out to the United States and countries such as France the mutual harm that might ensue from a punitive policy. The United States, which had been in the vanguard of those nations pursuing a policy of containment against China, now faced a country which, in the 10 years or so past, had never done any harm to the United States, but also had never bent its knee to intimidation. Should the U.S. Government and the U.S. Congress disregard its own national and international strategic interests and interfere in the domestic affairs of another nation?

By any logical reasoning, the answer undoubtedly must be in the negative.

From the U.S. viewpoint, in early 1969, Kissinger had sounded the clarion call for a pragmatic policy, pointing out that, "although we are powerful, it is not without limit. Our power compared with our problems is definitely not within limitation. To the contrary, whether it be talent or material resources, we must be discreet in our exercise." Twenty or so years have gone by since, and the strength of the United States is even weaker than then. The U.S. carrot-and-stick policy has gone by the wayside. It is even helpless about those that dare to oppose it such as Nicaragua, Panama, and other such countries in Central and South America in its "own backyard." As for Iran, Lebanon, Libya, and such other Middle Eastern countries, its role as the "world's policeman" has folded. One finds fewer and fewer countries in the world that look only to the United States as leader.

The United States is also declining in economic power. After World War II, it helped Western Europe, Japan, South Korea, and others recover. Now, its branches and leaves may be flourishing, but the trunk is as brittle and dry as firewood, it has no money to do anything. Not only is it financially strapped domestically, with a national debt of \$2.8 trillion, but its foreign debt is \$5.325 trillion! It is the world's leading debtor nation. Japan, Western Europe, and Canada do not share its bed nor its dreams; it is gradually becoming a nation that has been picked clean by its allies. Moreover, it is facing impending problems in drugs, unemployment, and strikes, housing shortages, loss of prestige, pollution, racial conflict, and various political corruptions such as fraudulent elections and other insoluble social problems. In short, the American Empire of years past that could and would interfere in the internal affairs of other nations is no longer possible because of its loss of effective power. If the United States cannot tend to itself, has no power to do its will, how can it put pressure on 1.1 billion Chinese? Isn't it a bit like an Arabian Nights fantasy for it to think it can actually control or put pressure on a political world power such as China?

Let us shift our attention to the western shore of the Pacific. China is an important component of the politically multifaceted world. In the words of Nixon, it will be a "superpower" on the future world stage. The United States cannot achieve or preserve its global interests without the support and cooperation of China. This is especially so in the Asian-Pacific region; China is a major force for the United States to rely upon against influence expansion by its potential rivals. If the United States seeks to have peace and stability in the Asian-Pacific region, and advance its own interests as well, it cannot do so without China's active participation. As some perceptive Americans have observed, when a nation with one-fourth of the world's population says "No," it would make matters difficult for the world on any subject.

From the eighties to the end of the century, the greatest economic vitality rests in the Asian-Pacific region, and each year it grows by 11 percent. If China, which in 1989 showed the greatest economic acceleration in the area, is

expelled from the international family, then the slogan "the 21st century is the century of the Asian-Pacific region" will be nothing but a hollow boast. The two-ocean nation that is the United States now faces a serious challenge from a united European Community, while still struggling in very heated-up competition with Japan and Taiwan. Pragmatic American politicians can and should recognize this completely, whether they consider it from geopolitical or pragmatic standpoints. To be adversarial with China is to deliver that huge nation and the Asian-Pacific market to Japan and Europe.

A stable and prosperous China is a vital link in the U.S. diplomatic policy chain. Good relations enhance the United States' global strategic interests. Professor Kissinger clearly expounded on this point this year at the time of China's internal turbulence. Rejecting dissent from formidable forces inside the United States, he warned the United States not to interfere in China's internal affairs citing China's importance to his country as the major reason. Returning from their China visit, both Nixon and Kissinger gave a vital message to the U.S. Congress and the administration, that with the Chinese political situation stabilized, the road to reform and opening started by Deng Xiaoping will continue. And the announced resignation of Deng with Jiang Zemin becoming the third generation of Chinese Communist Party leadership both signal the same to the whole world. The logic of history will also impress this upon the current administration which has the characteristics of discretion and pragmatism, as well as teach a lesson to those ignorant anti-Chinese, anticommunist elements in the United States that any measures to isolate, weaken or unilaterally harm China will be futile against a country that is getting more and more politically stable, that is getting stronger by the day, and that has never been intimidated by efforts to isolate or pressure it. Only a realistic attitude, a renewal of diplomatic policy toward China based on pragmatic principles, decisively halting erroneous interference in its domestic affairs and taking the initiative to improve Sino-U.S. relations should be the smart things to do by the United States Government, and particularly by the Congress of the United States.

(10 January 1990, New York)

#### **XINHUA Notes Bush Opposes Major Loans to Soviets**

*OW1803052190 Beijing XINHUA in English  
0127 GMT 18 Mar 90*

[Text] Washington, March 17 (XINHUA)—President George Bush today made it clear that his administration stands against major loans to the Soviet Union.

In an interview with national public radio aired today, Bush said that he does not accept the concept that "we ought to go loaning money or giving money to the Soviet Union."



Bush was referring to a row that has cropped up between the two superpowers over the U.S. posture on the new European Bank for Reconstruction and Development.

"But I think they should only borrow money up to their paid-in capital," he said.

Treasury Secretary Nicholas Brady warned Wednesday that "if a major part of the funds are diverted to Soviet lending", the U.S. would boycott the newly-established bank.

A number of Western European countries, however, favor more generous treatment for Soviet borrowing.

Soviet Finance Minister Valentin Pavlov, who met Brady Tuesday, criticized the U.S. position in a talk with reporters here Wednesday.

Pavlov said that it would be wrong to single out the Soviet Union for special restrictions on borrowing and called U.S.-sponsored limitations "an attempt to politicize the bank".

Bush claimed that the bank was set up to help "the smaller countries in Eastern Europe who are going down democracy's road."

He indicated that the Soviets are not qualified, saying that "the Soviet Union has a long way to go before sound loans can be made."

"Their first steps ought to be reform, and our first steps ought to be trying to help them with these reforms," he argued.

House Majority Leader Richard Gephardt in a speech on March 6 criticized Bush for unimaginative leadership and also called for direct aid to the Soviet Union.

Bush said bitterly that "I don't think that's in America's interest, and I don't think it's needed to encourage reform and perestroika and glasnost in the Soviet Union."

## SOVIET UNION

### Gorbachev Rejects Call To Rename Party

OW1203090390 Beijing XINHUA in English  
0642 GMT 12 Mar 90

[Text] Moscow, March 11 (XINHUA)—Soviet leader Mikhail Gorbachev rejected today the idea of changing the name of the Soviet Communist Party, but proposed to leave the words "leading role of the party" out of the Soviet Constitution.

Addressing a Plenum of the party Central Committee, Gorbachev described the creation of a new communist party of the Russian Federation as "a highly important task" and suggested holding a party conference of the Russian Federation on June 19 in Moscow. The Russian Federation is the biggest constituent republic of the Soviet Union.

The official TASS NEWS AGENCY reported that Gorbachev rejected the idea of replacing the Soviet Communist Party with another party, and refused to change the party name to social democratic, socialist or otherwise.

"Stripping the party's name of the word 'communist' will be a serious blow to the party's ideological foundation and will disappoint many party members and non-party people that support the communist party as a party of lofty ideals," Gorbachev said.

Moreover, Gorbachev proposed changes in the country's constitution to the extraordinary congress of Soviet deputies due to open Monday.

"The thrust of the proposals can be described as excluding the provision about the party's leading role and about the party as the nucleus of the Soviet political system, and constitutionally formalizing equal possibilities for the Communist Party and other political and social organizations to work towards their programmatic goals," he added.

Gorbachev also said he hopes to open the party's 28th congress on July 2.

## SOUTHEAST ASIA/PACIFIC

### Commentary Denounces Vietnam's Presence in Cambodia

OW1903185090 Beijing XINHUA in English  
1641 GMT 19 Mar 90

[Commentary by XINHUA correspondent Cai Ximei: "Vietnam's Presence Cannot Save Phnom Penh Regime"]

[Text] Beijing, March 19 (XINHUA)—Cambodian President Norodom Sihanouk has condemned Vietnam for colonial rule, charging that the Vietnamese shifted Cambodia-Vietnam border markers in two northeastern Cambodian provinces to points deep within Cambodian territory.

In a news briefing at the request of foreign missions here today, Sihanouk unmasked the facts that Vietnam has speeded up its military build-up and has recently thrown large numbers of troops into the battle against the Cambodian resistance forces.

Sihanouk appealed to the ambassadors and diplomats from 73 countries who attended the news briefing, and the rest of the international community, to pay close attention to the latest developments and condemn the new crimes Vietnam is committing against the Cambodian people.

A map of Cambodia, materials and photos showing the presence of Vietnamese troops in the country presented by Sihanouk and news about Vietnamese troops fighting directly against the resistance forces on Cambodian battlefields have: first, laid bare Vietnam's lie that it had withdrawn all its troops by last September. Last year



Hanoi and Phnom Penh clamoured that the Hun Sen regime has "the ability" to defend itself and that the Vietnamese "volunteers" had fulfilled their "internationalist duty" and pulled out totally from Cambodia. The Vietnamese even pledged that they would never return to Cambodia no matter what situation existed there and would let the Cambodian people exercise their right to "self-determination." As recently as the February informal meeting on Cambodia in Jakarta, the Vietnamese foreign minister still insisted that there was not a single Vietnamese soldier in Cambodia. However, confronting irrefutable evidence, Vietnamese "ambassador to Cambodia" Ngo Dien and Thach were recently forced to admit that the Vietnamese "councillors" had returned to Cambodia to help work out a "northwestern strategic defense line" and train artillerymen.

Secondly, since last October the resistance forces have liberated much of the provinces of Battambang, Siem Reap, Oddor Meanchey and Preah Vihear. This forced the Vietnamese still in Cambodia after Vietnam's so-called "complete withdrawal" to leave their hiding places and fight against the resistance forces. Furthermore, the Vietnamese also have sent back over 20,000 troops to help the Phnom Penh regime troops defend

Battambang and other strategic cities. This shows that without Hanoi's backing, the Phnom Penh regime cannot survive.

Vietnam's nibbling at Cambodian territory and sending large numbers of military forces back to Cambodia proves that Vietnam has been determined to continue its large-scale military interference in Cambodia, is unwilling to give up its already gained benefits in the country, and will not allow the Cambodian people to decide their own destiny. In short, Vietnam still lacks sincerity on a political settlement of the Cambodian problem.

Nevertheless, can Vietnam military aggression force the Cambodian resistance forces to compromise? Can it promote a solution of the Cambodian problem in accordance with Hanoi's designed track? Can it make the international community give up their just stands on the Cambodian problem? Obviously, the answer is "no." The Vietnamese troops' return to Cambodia not only goes against the willingness of the international community to seek a comprehensive political settlement, but also obstructs Cambodia's peace process. It will start war in Cambodia and bring disaster to the Vietnamese and Cambodian people.

## Hong Kong Scholars Discuss Political Future of Mainland

90ON0335A Hong Kong CHENG MING  
[CONTENDING] in Chinese No 148, 1 Feb 90 pp 59-63

[Article by Hsieh Hsiao (6200 4607): "Developments in the Situation in Mainland China"]

[Text] On 10 January of this year, CHENG MING magazine invited several noted scholars to an informal discussion of the present situation in Mainland China and the prospects for the 1990's. A CHENG MING adviser, Professor Yang Liyu [2799 0500 1342], presided over the symposium. During the symposium, it was widely rumored that Beijing would be lifting martial law on that very night. The scholars focused on this popular topic; each aired his own views and analyzed the influence of the international climate of the 1990's on the situation in China and prospects for the progress of Chinese democracy. One feature of this discussion meeting was the light and humorous tone used in discussing the serious subject matter. Below is the content of the discussion as recorded on tape and put in some order.

Yang Liyu (henceforth, Yang): I accepted the trust of CHENG MING's editor in chief, Mr. Wen Hui [3306 6540], to preside over this symposium (Mr. Wen recently went to Eastern Europe). Today's discussion has two major themes: One is the current situation in China, and the other is the prospects for the 1990's. The "current situation" refers to the problems presently faced by Mainland China as well as the political, economic, and foreign affairs situations; prospects for the 1990's means looking at the possible changes that may occur on the mainland during the next 10 years.

### The Chinese Communist Party Is an Unstable Political Regime

Liu Shuxian [0491 6615 0341] (henceforth, Liu): After Deng Xiaoping got rid of Hu Yaobang and Zhao Ziyang, and from nowhere promoted Jiang Zemin as general secretary of the Chinese Communist Party (CPC), he allowed Jiang to continue the policy of reform and opening up to the outside. On the other hand, though, he also reached an agreement with conservatives, allowing [Premier] Li Peng and [Vice Premier] Yao Yilin [1202 0181 2651] to implement conservative and retrenchment policies. Under these conditions, people have doubts about how much the policy of opening will be able to achieve.

This evening Beijing is announcing the lifting of martial law, indicating that now the situation for the CPC is not as tense as after the events of 4 June. However, we can still firmly assert that the political power of the CPC is an unstable political power, and though there is cooperation among the [eight] aging leaders, their opinions are certainly not identical, and there are contradictions between the thinking of General Secretary Jiang and

Premier Li. We are unable to predict when the harmonious surface will crack, but it certainly cannot be a period exceeding a decade. I think that at present China exists under the authority of Deng Xiaoping, and lack any internally consistent policy.

Yang: Do you believe that the dramatic changes occurring in Eastern Europe can happen in China?

Liu: I think that in the short-term such change cannot occur, and the reasons are very simple. First, China's territory is much greater in comparison to that of Romania, as Romania has a population of only 20 million people and its area is just a bit larger than Zhejiang Province. In addition, China has vast numbers of peasants and illiterate people, and its news media is ineffective. In Romania, although in this instance it was the students who took the lead, the workers followed close behind, and then when the armed forces also sided with the people the situation took an abrupt turn. In China, the Tiananmen events of 4 June were a case of just the opposite occurring in terms of the military, hence in the near future China cannot explode in the manner of the Romanian revolution.

As for the situation of Hong Kong, clearly it is influenced by the political situation on the mainland. The current policy of the CPC toward Hong Kong has been established on a mistaken foundation. This is because the CPC, as a result of the aftermath of the events of 4 June, is operating from a stance characterized by guilt and lack of self-confidence.

### The CPC's "War of Nerves" Against Hong Kong

After the string of events that have occurred in Eastern Europe, the CPC naturally considers itself fortunate to have curbed the "chaos" in a timely manner, otherwise its fate could have been the same as that of [executed Romanian leader Nikolai] Ceausescu. On the other hand, with the East European dominoes falling one after another and only Albania still standing, while news of Eastern Europe has already reached China, it is no wonder that Deng says that many comrades cannot eat or sleep, and they hear the rustle of leaves in the wind and are very tense. After watching Hong Kong's support for the democracy movement, it is natural that the CPC considers Hong Kong to be an "anticommunist base," and recently the criticism went up a notch to "base of subversion," while the Branch Association has also become a "subversive organization." But those of us who have lived in Hong Kong for a long time want to know, how can Hong Kong subvert the mainland? Obviously the CPC has allowed for the policy of one country, two systems, and Hong Kong under the two systems idea is a place that will retain its freedom of speech and in which many matters will still be under the jurisdiction of Hong Kong's legal system. The CPC simply does not understand this circumstance, and much of the time it struggles against an illusion. If the CPC is neurotically engaging in a "war of nerves" in dealing with Hong

Kong, it will certainly have a large effect on the stability and prosperity of Hong Kong.

Yang: I think what the CPC fears most is Hong Kong's freedom of speech. Abroad we hear the statement that it is possible for "Hong Kong people to govern Hong Kong, but impossible for "Hong Kong people to govern China." From the point of view of the CPC, the people of Hong Kong want to democratize the mainland and assist the democracy movement, and this is what the CPC dislikes the most.

Liu: This isn't a question of "Hong Kong people governing China." Chi Peng-fei [1213 7720 7378] first proposed that "Hong Kong people govern Hong Kong," but this slogan has not been raised for the last two years.

Chu Li [2612 4539] (henceforth, Chu): Just now Professor Liu used the term "neurotically," which I think is a good description, since due to the atmosphere created by the changing situation in Eastern Europe, the CPC is very troubled and confused. There are many who predict that the situation could become a second Romania. Yet, the CPC has drawn a lesson from this, and rapidly taken measures to prevent a storm from breaking out, one of the methods being the blocking of external sources of news and information, for example, interfering with broadcasts of the Voice of America (VOA) and the BBC. Hong Kong's news is no exception, as some institutions reportedly required special permission to be able to read the newspapers of the United Left—WEN WEI and TA KUNG. County magistrates in some counties in Guangdong Province also watch Hong Kong television news, and recently I heard that they cannot see anything for the period when the news is broadcast, but half an hour later they can. In terms of the situation inside the country then, there has been an intensification of control, and now they say martial law will be lifted, but if this is merely a false show of words, then this is even more frightening. Since more than 20,000 police uniforms were given to Army soldiers, we can say that this is [still] martial law. The goal of this is to look good on the outside.

#### **Lifting of Martial Law; in Reality All for Show**

Yang: Do you think that the CPC is lifting martial law due to considerations of the international situation?

Chu: Correct. Although the party has repeatedly stated that it does not fear outside pressure, this was possible before when the country was closed off from international intercourse, but now it is impossible. The lifting of martial law is mostly cosmetic, and I have found that the speeches disseminated by intermediaries and leaders of the CPC have the same tone as those of the previous Cultural Revolution. Just change the time and the people's names and the retain the phrases. However, among the people, things are quite different than in the past. Before, the higher authorities issued orders, and everyone struggled together, but now everyone is

resisting, and the central authorities are obviously not pleased, and time and again prolong the period of the movement.

Liu: This time they have purged nineteen classes of people, but it has been quite unsuccessful. They have investigated for half a year, and yet only several tens of thousands of people have been found to have been involved, and, allegedly, Chen Xitong [7109 1585 0681] is very displeased. In fact, a million Beijing residents took to the streets and participated in the demonstrations.

Chu: The last 10 years of reform have made people notice what happens in the outside world, and there has been a change in thinking and a conscious resistance to irrational policies. But for the leadership, if half a year does not work they can prolong it to one year, if one year does not work then they can lengthen it to two years, and if their quota of rectified persons is met, and the present leaders do not change, but hold on for an extended period, this policy will be very frightening. The inevitable result will be a gradual closing up in terms of politics and ways of thinking. Economic retrogression is also inevitable. In the past, the authority of the factory manager was quite substantial. Now, the "party committee secretary" also has a hand in purely business-related matters. One look from the secretary, and the factory manager considers things from a political point of view, and with political considerations, economics takes a certain beating, and political, economic, educational, aspects all get dragged in. Some letters from inside the country say in a very veiled way that "the future course of our cultural education is a very rough one." From these indications it is evident that the mainland also does not have the kind of self-questioning by the leadership which has provoked and stimulated the situation in Eastern Europe; on the contrary, their determination to maintain control has intensified.

For this reason the short-term outlook for the situation on the mainland is pessimistic. The only optimistic thing is that although at present those responsible for the policy that led to 4 June are still in power, the situation cannot but change. Still, looking at the changing situation on the mainland over the next several decades, after the entire leadership has changed it will still be possible to deny the past, and the pattern of "when the leader dies, his policies die" perhaps cannot be changed.

#### **A Foreign Policy With Irrational Elements**

Zheng Yushuo [6774 1342 4311] (henceforth, Zheng): I agree with the statements of the two gentlemen. Especially in terms of the foreign policy aspects of the CPC, the contradictions are legion, and irrational factors occupy a sizable proportion. For example, last 9 June, when Deng Xiaoping asserted that reform and opening would continue, what he meant was that he wanted to maintain relations with the West and continue to do business, only the western countries unanimously condemned China, and China cannot endure this. [U.S.

President] Bush twice sent special envoys to Beijing, wanting to show a degree of compromise with the CPC, and hoped that afterward it would be possible for the United States to loosen sanctions, while the World Bank would also resume lending, and the Japanese would follow suit. But the CPC's response displayed irrationality and went against international public opinion. Recall last year on 26 September, when the six new members of the Standing Committee, including Jiang Zemin and Li Peng, met with foreign correspondents for the first time, their stance was very uncompromising. Two days later the International Monetary Fund (IMF) and the World Bank opened meetings in Washington, and if Jiang and Li had made some gesture, such as lifting martial law, these international organizations might have considered resuming lending. As for President Bush, with the current chaotic situation in the Soviet Union and Eastern Europe, he hopes to stabilize things in Asia, and especially desires to maintain stable relations with China, because he is attempting all the time to cope with so many changing circumstances. But the CPC not only did not take the initiative, but also stated that the events of 4 June were not a tragedy.

Looking again at the Romanian situation, following Qiao Shi's [0829 4258] visit to brief the Romanians on suppression methods, Ceaucescu found himself in imminent danger, and tried to flee into exile. The CPC was willing to accept him, but when the new government was formed it also quickly extended recognition, and though this stemmed from considerations of the real situation, they needn't have used such haste in extending recognition.

Liu: There are those who say that the Romanian Embassy threatened the Beijing government, saying that if recognition was not immediately extended to the new government, they would stir up a scandal over Qiao Shi's visit.

Zheng: That's why I say that the foreign policies of the CPC are irrational, and questions of saving face, mental debility, and the psychological state of old men all become extremely important factors in studying China. Today's China is very different from the China of the 1960's. Gone is the formulation of China as "the bright beacon of socialism," though they still wish to preserve their socialist system. However, the desire to preserve the government's legitimacy and stability must have the requirement of raising people's living standards as a prerequisite. The problems confronting the CPC this year are standard of living questions such as inflation and financial deficits, which I believe means that the CPC has no choice but to continue to deal with the Western countries. We cannot underestimate the stability of the CPC government. The biggest factor giving impetus to the changing situation in Eastern Europe has come from the Soviet Union, but the CPC does not have this outside pressure, and there is no force within the country that can take the place of the Communist Party.

### **The Death of Aging Political Leaders Is the Main Factor**

Yang: I would like to put in a few words here. In Romania before the eruption we also said that no substitute force had emerged, but its armed forces collapsed in a single night. According to a report by a U.S. research institute, the Army under the Romanian Communist Party was the most stable, and many of their special forces (securitate) personnel were orphans who had been raised by Ceaucescu. When they reached adulthood they became the main strength of the security forces and could be said to be highly reliable, yet they also collapsed in a single night. Could such a situation emerge within the armed forces and security forces of Mainland China? Undoubtedly, many would emphasize that the stability of the mainland and that of Eastern Europe are different, or at least they do not see the possibility of a collapse of political power on the mainland, am I right?

Zheng: In addition to the factors already pointed out, such as China's vast territory and large population, I would also like to point out that for the last 10 years the living conditions of the average Chinese have basically taken a turn for the better, and though they have been influenced by inflation, this also is an inevitable problem associated with each period in the development of China. But in Romania the situation was exactly the opposite. From the seventies to the eighties all the economies of Eastern Europe were on the decline. In China, in addition to the improvement in the quality of life, the degree of freedom of the people was also substantial, and in terms of the basic necessities of life things were quite unrestrained. Just now it was pointed out that the effectiveness of the government has gone down, the baton of leadership has already proved to be ineffective, and since the baton is not moving, contradictions naturally are reduced. Central government expenditures as a portion of GNP have been reduced drastically over the last 10 years, and much money has been provided to local governments. In addition, though there is also enough corruption to arouse people's indignation, in fact, among cadres and in the entire power structure, everyone has achieved a good position, and this is one factor contributing to the stability of the CPC regime. The only possibility for sudden change is the psychological factor, and the death of the aging ruling leaders is the greatest variable in this.

Liu: Just now everyone has been talking about the comparative stability of the CPC regime, but nothing has been said about the fact that it has not changed in 50 years. Think back to before 4 June. Hundreds of thousands of troops were concentrated around Beijing, and of course they were not there to deal with the students, but were there because there was fear that changes could occur in the armed forces. Now, public opinion abroad holds that Zhao Ziyang is weak, but if at that time he had given the word to revolt, though it is impossible to predict whether there would have been a civil war, certainly it was a good opportunity, and it is too bad that he let this opportunity slip by. Now it appears that the

people holding power within the CPC were successful in maintaining control of the military in the period after 4 June, but for this they had to pay a price, and Deng used his own prestige in putting down the democracy movement, though he had to come to an agreement with the conservatives. Now Deng's prestige is not as great as it was previously, and he is only resting on past glory. In the past, at least the average Chinese did not see Deng as a Ceausescu, but in the future this cannot be said with assurance, and now what we are interested in is whether change will occur on the mainland while Deng remains alive or after he dies. There are those who say that even Deng alive cannot stop change from occurring in China.

Zheng: After all—who knows—Deng could still live for several more years. If he lasts for only two or three more years, the situation could remain quite stable; if he lives for 20 years, then of course the result could well be different. Suppose things reach an impasse within the CPC. Then it would be very easy for a sudden change to occur, and if in this deadlock all vested interests suffer losses, then this will certainly make it easy for sudden change to happen.

#### **The Morale of Soldiers as Revealed by JIEFANGJUN WENYI**

Chu: I just mentioned short-term pessimism, but there are also some promising phenomena. For instance, the present Central Committee leadership is still raising the slogan of "reform and opening"; it would be unfortunate if this phrase were no longer being touted. As long as we have this slogan, the people at the lower levels will have a way to deal with the situation.

In addition, although there has been no hint of unstable morale within the military, in the most recent issue of JIEFANGJUN WENYI [PLA ART AND LITERATURE] from what I have read about some army commanders and division commanders who wrote after the "Beijing massacre," and judging from some of the situations they revealed, it appears that morale is not stable, and among other things it was pointed out that more than 500 soldiers had deserted. "We are like the Qin emperor's terra cotta warriors" were the words used. This is a very wretched description. The article also said that seeing violent acts committed against people numbering in the thousands had a tremendous effect on the soldiers: Where did so many demonstrators come from? This is not a problem that the CPC can solve with a couple of days of political classes. JIEFANGJUN WENYI also reveals that PLA [People's Liberation Army] suppression was not limited to Beijing, but also occurred in Qin Huangdao and many other places. Popular feelings are strong. The use of high-pressure tactics will not be able to solve the problems. This could also be one of the causes of sudden change.

#### **Are Zhao's Forces the Capital of Jiang Zemin?**

Yang: I believe that the contradictions and divergences of opinion within the CPC are quite formidable, and the contradictions between Li Peng and Jiang Zemin are

already surfacing. Li Peng, who went all out in his effort to strike down Zhao Ziyang, emphasizes the planned economy and centralized economic authority, and would like to reclaim local economic authority. Jiang Zemin's criticism of Zhao has been softened quite a bit. Jiang Zemin's most intelligent move has been to incorporate Zhao's forces into his own.

Liu: The forces loyal to Zhao that remain in the government represent a very beneficial stratum, and have become a resource for Jiang Zemin.

Yang: Therefore, we may say that the reformists did not suffer a complete collapse, only the leader Zhao Ziyang fell. To say outwardly that Jiang is a figurehead is not wholly correct, as he is still surrounded by reformists. However, in terms of the armed forces, Jiang Zemin really is a figurehead. At the Fifth Plenary Session of the 13th CPC Central Committee he frankly acknowledged that he would have to do further "study" on aspects of military affairs. He and Yang Shangkun hold contradictory views, but each is also using the other for his own ends.

Chu: Jiang Zemin has no past links whatsoever with the Central Military Commission, and perhaps for this reason continues to remain in this official post. Otherwise, in terms of factions, the struggle could be even more acute.

#### **Facing the Pressure of "Using Debt To Protect Debt"**

Yang: Deng is now quite vigorously cultivating Jiang Zemin, showing that he also believes his days are numbered, and Jiang's position will remain stable while Deng is living, but I also believe that Jiang Zemin is a transitional figure, and I am afraid the situation will become very difficult for him. However, Yang Shangkun also cannot control the entire military, and I think that China after Deng in terms of the economy might see the emergence of the phenomenon of local separatism, as the local economic power of the coastal provinces is already impossible to reclaim. In terms of military affairs, there is the separatism of the military regions.

Recently, China's economic crisis has reached a very serious point and I think the first thing to look at is the foreign debt, which will peak beginning in 1992 and continue to be high right through to 1999. Next year's foreign debt total has three formulations: One is \$4.4 billion, one is \$5.6 billion, and the other is \$6.6 billion. In addition, China has for several years (three) in succession had a foreign currency deficit, and using foreign debt to pay back foreign debt simply won't work. The only feasible thing to do is use foreign exchange reserves, but allegedly China's foreign exchange reserves are now no more than \$2 billion, gold reserves are no more than \$1 billion—in all only a \$3 billion principal. Should anything happen to this principal, the results would be very serious indeed. At present, China urgently hopes that Japan and the World Bank will resume lending, carrying out a policy of "using debt to protect debt," but the U.S. investment-rating company Moody's recently

reduced China's borrowing status from AA to BB; hence lending to China now is also a great risk. China's investment in Hong Kong has also gone down a notch, and how to handle this crisis has become a matter of top priority. Thus, martial law has been lifted and relations are being resumed with the West in the hope that some money will be lent and this will ease the pressure of the 1992 return of foreign debt.

Nevertheless, people's living standards are dropping. Recently there has been inflationary pressure, which, though not as serious as last year's, is still fluctuating between 25 and 30 percent. At present, the government bond policy is affecting all workers, as only 100-120 yuan of the monthly salary of 150 yuan is actually being taken home. This has elicited an extreme amount of disgust from people. People already do not have enough money to use, and every month 30 to 35 yuan is being taken out to buy government bonds. Reportedly, in the first half of this year some 4 billion RMB [renminbi] in government bonds will come due, though in the present situation the people have money and the government has none. In the first half of this year the government will reportedly issue another 8 billion RMB in government bonds.

Zheng: Previously, the interest on the bonds has been very low and in the last few years it was three percent. Now the government is issuing bonds with an interest rate of at least eight percent.

Yang: Another way to put it is that China is so large that things can drag on, and it cannot collapse like Romania. The patience of the Chinese people is very strong, and it probably does not matter whether the income of the peasants goes up a little or falls somewhat. But all this is only guesswork.

#### The Six Greats of Deng Xiaoping

Liu: I heard a statement that added several nicknames to those already attached to Deng Xiaoping. To the Great Marxist and the Great Chief Designer, recently have been added "the Great Meteorologist," because he has pointed to the [importance of the] macroclimate and the microclimate. He is also called "the Great Biologist," on the basis of the "black cat, white cat theory" and in addition there is "the Great Geologist," who points to the "groping for stones as one crosses the river" phenomenon (a popular criticism of Deng's lack of a clear direction in which to lead China); Finally there is "the Great Sexual Expert," directed to the statement "one center, two essential bases." (laughter).

#### For the CPC, Impasse Cannot Lead to Change

Yang: Now, I would like each participant to briefly discuss the prospects for the 1990's.

Liu: As a matter of fact, we have already taken some possible changes and listed them, and though it is not possible to assert when Li Peng will fall, we can say that mediocre people like him do eventually fall from power. I do not believe that such an unstable situation can

continue, because these crises are real problems. Why else could the students of Tiananmen Square obtain the support of so many (common) people? They certainly did not know of or desire the struggle for democracy and freedom; their attention was on official profiteering and corruption, and the CPC is incapable of solving these problems. In addition, with the "vouchers" policy, where the peasants give their labor and do not receive what is their due, the government's standing among the people will naturally worsen.

Yang: Is there any possibility that "impasse will lead to change, and change will lead to a solution?"

#### Finding a Scapegoat Will Not Help the CPC

Liu: The fundamental factor obstructing change is that the higher echelons of the CPC, including Deng Xiaoping, are all constrained by ideology, and the emergence of factors of sudden change must wait until after the (present) balance has been broken. For example, after Deng dies, the independence of each of the military regions could become greater and greater, and new variables could then emerge.

Yang: The communist parties in each of the East European countries has come to terms with the opposition, and was willing to end the practice of "one party rule." Only in Romania did the party not compromise, and it collapsed. Is the CPC capable of compromise at the present time?

Liu: The question is the bottom line of a compromise. The CPC is not going to surrender power, their compromise is only to release Hou Techien and Kao Hsin.

Chu: What Professor Yang refers to as the compromise of East European communist parties is fundamental structural change. In the view of China's leaders, releasing a few people and lifting martial law are really compromises.

Zheng: Looking at the compromises of the Polish Communist Party—the situation was pressing, the economy was a complete mess—it was not that the party was willing to compromise. The key is whether or not the Communist Party is willing of its own initiative to relinquish power.

Chu: It can be asserted that presently the CPC is heading toward a blind alley with no way out. In addition, there is nothing the party can do to change the international climate; this is a matter independent of sovereignty and human will, and the party is powerless to change it.

Yang: In view of this, the CPC has no choice but to accept that "impasse will lead to change, and change will lead to a solution." In the future, opposition forces will become stronger and stronger, and eventually the volcano will erupt. Will the CPC be able to appease Heaven by having Li Peng resign?

Liu: I think this could happen at some point.

Zheng: Using Li Peng as the scapegoat makes no sense, as Li Peng is a person who has no real power, and this would have little effect.

Yang: Substituting people is not impossible. Only if the CPC undertakes a thoroughgoing reform can finding a scapegoat also solve the intractable problems.

### Democratic Forces Will Explode One Day

Chu: We have had a rational analysis here today, but it may be said that in terms of development of China, the only thing that can be predicted is its unpredictability. I can also say that, although today we are pessimistic, perhaps there is a basis for optimism.

Yang: Looking at the long term, the tidal current of democratization of the Chinese mainland cannot be stemmed, as this is a worldwide current. There is an old Chinese saying: "Those who submit will prosper, those who resist shall perish" (said of the arbitrary rule of a tyrant), and the democracy movement is such that "not even a prairie fire can destroy the grass; it grows again when the spring breeze blows." The democracy movement of 1989, though suppressed, cannot be kept down for long. This is the reason for my optimism. Without a doubt, not having reached their goal before was painful, and in struggling to achieve democracy it is possible that blood will be shed in sacrifice. Though there are none who can predict the future course of development, still the overall trend is that people are demanding democracy and freedom, and the capability of the students cannot be overlooked. The unleashing of this force over a short period of time could produce a landslide defeat, though this could not clear up the situation, as it would be like the situation in 1949 when the Kuomintang regime arrived on Taiwan. What type of new forces would replace the Communist Party after any sudden change in the situation remains an unknown.

### Standards Suggested for Provincial Leading Cadres

90ON0344A Beijing ZHONGGUO XINGZHENG  
GUANLI [CHINA ADMINISTRATION]  
in Chinese No 12, 16 Dec 89 pp 23-25

[Article by Chai Wangqun (2693 3769 5028): "An Opinion on the Standard Responsibilities of Provincial-Level Leading Cadre"]

[Text] What qualities and qualifications should provincial CPC Committee secretaries and provincial governors have, and what are the standard responsibilities of these two positions? This is an important question that has been encountered in the work of selecting and assigning local party and state leading cadres in China, and is a question that needs to be studied and resolved. For a long time, in the selection and assignment work of provincial-level party and state leading cadres, we have persisted in raising the overall qualities of the leading cadre group and improving overall structure while also putting special emphasis on selecting well-qualified

party and state "members." Furthermore, we have generally done a good job in meeting the actual need of cadre standards, and have improved the building of local party and state leading groups. However, along with the development of the various socialist undertakings, the local high-level party and state leading cadres have increasingly displayed excessively abstract principles and have been unclear about specifics and standards, making it difficult for them to get a comprehensive and correct grasp of their shortcomings. To a certain extent, this has limited management by local party and state leading cadres in the process of integrating science, democracy, and the legal system. In this article, I have tried to observe the ideology of having high standards combined with feasibility in presenting my opinions, and I have limited my opinions to the positions of provincial CPC Committee secretary and provincial governor.

A. It is stipulated in China's Constitution that the highest administrative division is the province; it is an important economic and political entity that possesses a certain amount of independence. The provincial CPC Committee and provincial government act as the leading core of the province and its highest administrative organs. They are the direct recipients and executors of the CPC Central Committee's policies and instructions and State Council decrees. They have great authority and a heavy responsibility to uphold the party's policy of "one center with two essential points" and to lead the construction of the two socialist civilizations in their localities. China's state system, form of government, and politics, and the 13th CPC Central Committee have defined the position and duties of the provincial CPC Committee and provincial government, and have stipulated that the provincial CPC Committee secretary and provincial governor, acting as the primary leaders of the provincial party and state leading group, must possess the qualities of a party affairs and political affairs activist. These are the overall standard responsibilities of the provincial CPC Committee secretary and provincial governor.

B. To act as a party affairs and political affairs activist, one must first have good political qualities; it is most important to have a firm proletarian political stand, a good political and ideological moral character, and a good work style. These are the basic requirements and the mark of a party affairs and political affairs activist, and are the key factors that determine the characteristics of one. A firm proletarian political stand in the current stage is reflected mainly by one's ability to earnestly and thoroughly implement the general and specific policies during the time since the Third Plenary Session of the 13th CPC Central Committee, to be firm and unshakable in upholding the four cardinal principles, reform, and opening up, and to firmly and consistently oppose bourgeois liberalization; by having faith and trust in the party, having a firm party character, conscientiously maintaining a high degree of political and ideological unity with the CPC Central Committee, and always

proceeding from upholding and benefiting the causes of the party. The provincial CPC Committee secretary and provincial governor must stress this point. As for the aspect of political and ideological moral character, the provincial CPC Committee secretary and provincial governor should have a firm proletarian world outlook and be ideologically geared toward wholeheartedly serving the people, have intense devotion and a sense of responsibility to the revolutionary cause; have revolutionary courage and boldness, dare to face up to difficulties, and have the courage to persist in fighting behavior and social ideological trends that violate party principles, discipline, and the state legal system. In addition, they should seek truth from facts, start out from actual conditions in everything, and integrate theory with practice; maintain close links with the masses, strictly follow laws and discipline, be fair in handling external affairs, be completely honest, should not use authority to seek personal gain, and seek no personal privileges. They should have a revolutionary heart, be unselfish and magnanimous, have the courage to develop criticism and self-criticism, quickly correct mistakes, courageously accept work responsibility, not blame others, and take the interests of the whole into account. They should correctly handle people, positions, and authority, and deal correctly with higher authorities as well as subordinates, take good care of cadres, be generous to people, and not attack or suppress comrades who hold different views. They should be modest and prudent, study hard and make progress, value knowledge, respect talent, and be bold in bringing forth new ideas in reform. In the aspect of work style, the provincial CPC Committee secretary and provincial governor should uphold a democratically centralized system and the principle of collective leadership, put emphasis on listening to the opinions from all sides, and not act arbitrarily; make a habit of going deep into the realities of life, conduct investigation and research, and earnestly inspect, supervise, and encourage when resolving problems. They should have a boundless sense of responsibility in their work, seek substantial results, and see things through from start to finish; be steadfast, calm, and cautious in external affairs; and not take care of what should be done by others or overstep one's authority in handling matters.

C. Ability plays an extremely important role in leadership activities. One important mark of a party affairs and political affairs activist is to have varied talents, and in particular to have strong leadership skills. Proceeding from the necessary requirements, the talents that provincial CPC Committee secretaries and provincial governors should possess include the following several aspects: 1) The ability to understand and make judgments, which is the level of one's ideological understanding. The ideological understanding of a proletarian is reflected primarily in his knowledge of historical development of laws, and the ability to clearly understand whether the people are for or against something. The provincial CPC Committee secretary and provincial governor must be able to comprehensively and accurately understand general and specific policies of the CPC Central Committee and State Council; be able to judge the hour and size up the situation, grasp

the trends and orientation of the economy, politics, culture, and other social developments throughout the province. They must, from the strategic angle of the province, nation, and even the world, be capable of having a philosophical understanding and make theoretical summaries of new situations and problems in constructing the two socialist civilizations, reform, and opening up. The provincial CPC Committee secretary in particular, acting as the most important leader in the overall work of the province, should possess sharp clarity and foresight in the social and political arenas, must be able to see how things will develop from the beginning, and be able to grasp the thoughts and feelings of the masses, strive to "have a good idea of what is going on," and have the entire situation well in hand. 2) Macrodecision-making ability. This is reflected mainly in the ability to assume overall responsibility, make overall plans while taking all factors into consideration, and, in accordance with the basic line, guiding principles, and policies of the Central Committee and the views of cadres and the masses, put forward proposals and resolve the major problems in suiting measures to local conditions when drawing up the development strategy and plans for constructing the two civilizations in their provinces, doing a good job in party building, and implementing reform and opening up. In addition, the provincial CPC Committee secretary and the provincial governor, as the primary leaders of a province, must possess the ability to skillfully handle their province's complicated and important social and political contradictions and unexpected events. 3) The ability to select and utilize personnel. This is the ability to accurately judge, select, and utilize leading cadres according to the party's cadre basic line, general and specific policies, and principles, and be able to assist superiors in arranging personnel for leading groups at their own level; provide the necessary things for party and state leading groups at lower levels; support and give a free hand to the members of party and state leading groups, and give independence and responsibility to subordinates for exercising authority, and arouse the enthusiasm of the vast numbers of cadres. This reflects the leadership level of local leading cadres, and is an important parameter of their political intelligence and ability. 4) Ability in party affairs and political affairs. Based on the need to "grasp with both hands," the provincial CPC Committee secretary and provincial governor should have abilities in party affairs and political affairs. The provincial CPC Committee secretary should have outstanding ability in party affairs and a certain amount of ability in political affairs. The provincial governor should have outstanding ability in political affairs and a certain amount of ability in party affairs. Being capable in party affairs is reflected mainly in the ability to persist in conscientious and effective handling of party building; the ability to resolve issues concerning deviations and trends in the ideological sphere and to master the aspects of party ideology, theory, and public opinion; the ability to have wide-ranging associations and to bring personalities from various circles both within and outside the party together, to publicize the basic line, general and specific policies of the party, to be capable of directing ideological and political work, to strive to attain broad support from the masses both within and outside the



party for the work of the provincial CPC Committee; the ability to give full play to the role of party organs, adopt legal methods, thoroughly implement the intent of the party down to local organs of state and political power, convey and realize the party stand, and satisfactorily resolve related problems in the aspects of legislation, elections, and supervision. Being capable in political affairs is reflected mainly in the ability to have a good grasp of how to formulate government work standards and related rules and regulations and to conscientiously use laws and regulations in economic management; the ability to widely associate with various social circles and foreign personalities, and listen to their views on how to conduct government work; the ability to effectively carry out consultations and dialogue with various social circles, strive to obtain the understanding and support of the broad masses for government work; and to be able to establish and develop broad lateral economic relations. 5) Be able to organize and coordinate. This is the ability to coordinate and arrange work relations between the provincial CPC Committee and the provincial People's Congress, provincial people's government, and the provincial People's Political Consultative Conference, to coordinate and arrange work relations between the various functional departments of the CPC Committee or government and municipalities (prefectures) and counties, and to coordinate work relations between their province and neighboring province, autonomous regions, municipalities, and related departments of the state. 6) Leadership and implementation ability is primarily that of being able to classify the work of directing, inspecting, supervising, and encouraging to be done by the party committee or functional departments of the government, municipalities, and prefectures, and to ensure that the Central Committee and State Council directives are implemented in their provinces so that outstanding results can be obtained in the area of constructing the two civilizations. 7) Have good ability in the spoken and written language so they can draw up, examine, and approve important reports and documents; they should have good oral expression, be able to make speeches, and arouse the people.

D. Acting as a party affairs and political affairs activist, the provincial CPC Committee secretary and provincial governor must possess an abundant resource of knowledge. Looking at actual requirements in the present stage, the provincial CPC Committee secretary and provincial governor should have a college diploma or an equivalent education level. They must also have professional job knowledge and a knowledge of policies, rules, and regulations. Professional job knowledge includes having a strong theoretical understanding of Marxism-Leninism and Mao Zedong Thought and having a firm grasp of the cardinal principles of Marxism-Leninism and Mao Zedong Thought; having an intimate knowledge of China's history, history of the Chinese Communist Party, and the history of the international communist movement, and of modern world history; have a certain amount of knowledge of

political science, social science, personnel management, and management of the national economy; understand related knowledge of modern natural sciences; be familiar with the general changes in the history of their province's economics, politics, culture, and society; and have a general understanding of foreign affairs work. The knowledge of policies, rules, and regulations includes having a grasp of the important general and specific policies of the party and state; have an understanding of the fundamental points of China's Constitution, laws concerning the various local levels of National People's Congress delegates, laws of various levels of the people's government organs, and election laws; understand major points of regulations concerning the labor unions, Communist Youth League, the Womens Federation, and other related rules and regulations. Provincial CPC Committee secretaries and provincial governors of provinces bordering the sea should also understand the related parts of international law. The provincial CPC Committee secretaries and provincial governors of provinces with high numbers of minority nationalities should be knowledgeable concerning the party's policy toward nationalities and related state rules and regulations. In addition to all of this, the provincial CPC Committee secretary, based on the special requirements of the position, must also have a command of party knowledge (including knowledge of the Communist Party and related knowledge of the democratic political parties) and knowledge of party committee work, and, have a basic knowledge of work in the ideological sphere. The provincial governor must be proficient in the management of political affairs, and have related knowledge of China's geography, population, education, and economic and trade relations.

E. Party affairs and political affairs activists are trained through actual practice in society and are tempered and matured through the course of revolutionary struggle and the holding of important work positions. With regard to this, the selection of provincial CPC Committee secretaries and provincial governors should stress posts held in the past. Inappropriate and one-sided "breaking of rules in the selection" of cadres will result in unnecessary losses in work and losses for that individual. It has been proved in actual practice that positions held by prospective CPC Committee secretaries should include at least three years as a municipal party or state leader and at least two years as a provincial CPC Committee deputy secretary or at least three years in a leadership position of a major department of either the Central Committee or state organ. The work experience for a provincial governor should include at least three years as the primary leader in a municipal party or state leadership position or a leadership position in a provincial department or large state enterprise. A provincial governor should also have been either a provincial vice governor or provincial CPC Committee deputy secretary for at least two years, or otherwise hold a leadership position in a major department of the Central Committee or state for at least three years.

## NATIONAL AFFAIRS, POLICY

### Price Society Holds Forum on Reform

90OH0342A Beijing JIAGE LILUN YU SHIJIAN  
[PRICE: THEORY AND PRACTICE] in Chinese  
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[Article by China Price Society Forum, edited by Wen Guifang (3306 2710 5364): "Advancing Price Reforms to an Appropriate Degree in the Midst of Streamlining and Rectification"]

[Text] The China Price Society recently held two symposiums in Beijing which were attended by which nearly 20 well-known specialists, scholars, and old comrades who have taken part in price work for a long time. Everyone offered many valuable opinions about the lessons learned during the past 10 years of price reform, the current circumstances currently facing price reforms, and how to advance price reforms in the future in the midst of streamlining and rectification.

### I. Evaluation of Last 10 Years of Price Reform

The comrades who took part in the symposiums felt that price reforms had taken large steps forward in the last 10 years, and had achieved significant successes. However, for various reasons, some mistakes were made during the course of reform, and many problems existed.

Some comrades felt that the appearance of various problems during the last 10 years of price reform was due primarily to "two unclear points," "two areas where we failed to persevere," and "two areas in which coordination was lacking." One unclear point was that the guiding philosophy of the reforms was unclear. The guiding philosophy never made clear what kind of economic system we were attempting to achieve through reform. In the beginning, we spoke of a planned commodity economy, which was later changed to a socialist commodity economy, and then again to a controlled market economy. If things were to continue in this vein, the eventual result would be a complete market economy. With one change after another, the essence of the socialist planned economy was gradually abandoned. The second unclear point was that the overall program for the reforms was unclear. During 10 years of reform, there was never a systematic program; it was always "one step at a time," which caused the reforms to suffer from a certain blindness. The phrase "two areas where we failed to persevere" refers to the fact that we did not stick to the principle that we should take small steps forward, as originally agreed; and to the fact that we did not stick to a program of structured reforms. The "two areas in which coordination was lacking" refers to the fact that price reforms were not coordinated with other reforms, but "carried out the campaign in isolation"; and to the fact that there was no coordination between the various price reform measures.

### II. An Understanding of the Current Price Situation

Some comrades pointed out that the accomplishments made this year in price work have been significant. Price rises are evening out, people have become calmer, and the most recent transportation price adjustments have been relatively successful. This is further proof that we must resolutely maintain a program of stable prices during the process of reform. Some comrades also stated that it was completely correct to make it the top goal of streamlining and rectification to bring inflation under control and stabilize prices, and that some initial successes had already been achieved. One of these successes is the fact that market prices are rising at a much slower rate. A second success is that in some areas, prices are rising at the same rate as last year, or at an even lower rate. A third success is that localities everywhere have heavily stressed the food basket project and the psychological preparation of residents for inflation has undergone a change. Such phenomena as panic buying and bank runs have not occurred. Other comrades stated that because the program of streamlining and rectification has been implemented, we have done a better job of withdrawing excess paper money from circulation. Sales of some commodities have weakened, and the price situation has demonstrated three differences from last year's situation: The first difference is that market prices are rising more slowly in the cities than in the countryside. The second difference is that prices for nonstaple foodstuffs have risen less than those for industrial goods. The third difference is that price levels in rural fairs have risen less than prices for all retail commodities.

However, some comrades stated that the current weakness in the sales of high-grade consumer goods, just like last year's panic buying, is not normal. This is a temporary phenomenon that has arisen because structured readjustments failed to keep pace when the retrenchment policies suppressed demand. We should adopt measures to make total commodity sales show positive growth; otherwise, the development of production will be affected and we would be giving the opponents of streamlining and rectification something to attack.

Comrades who took part in the symposiums all agreed that this year's price situation is moving in a positive direction, but that the original objective of holding the scope of price increases this year to a level significantly below last year's is unlikely to be completely achieved. Some comrades stated that the current task of streamlining and rectification is quite demanding, and that three crises have now appeared: 1) **Credit crises.** In general, saving deposits have declined and loans are not being granted. Although 14 billion more yuan have been withdrawn from circulation this year than during the same period last year, there was a 4 billion yuan shortfall in purchases of agricultural products, so optimism in this area is not warranted. 2) **Fiscal crisis.** Prices are currently kept stable through administrative means and fiscal subsidies. This forces government revenues to shoulder a heavy burden. If this situation remains unchanged for long, revenues will be overloaded. 3) **Debt**

**crisis.** Beginning next year, we will have entered a peak period for repayment of loans, and we could reach a crisis for both internal and foreign debt. We cannot take these three possible crises lightly. This situation could affect the introduction of reform measures.

Some comrades analyzed from three perspectives the current price situation. First, in the five years from 1983 to 1988, the total supply of money in circulation rose by 160 billion yuan, of which 100 billion yuan were issued in excess of the economy's ability to absorb it. Price rises ate up 50 to 60 billion yuan, while 40 to 50 billion yuan are in circulation and cannot easily be withdrawn. Second, agricultural production has stagnated for several years. Supplies of grains and cotton have been maintained by dipping into reserves. We need to continue using price policies in an appropriate way to stimulate production, increase supply, and alleviate the current shortage. Third, the supply of energy resources, especially coal, is growing shorter by the day. It is imperative that the price of coal be raised. There is a similar problem with petroleum, and raising prices for these products will touch off a chain reaction. Under these circumstances, it will be difficult for streamlining and rectification to bring the rate of price increases down to roughly five percent, as some have called for.

### III. How To Advance Price Reforms Amidst Streamlining and Rectification

The comrades who took part in the symposiums all agreed that although we are currently facing a difficult economic situation, prospects for price adjustments and reforms are not hopeless. We should continue to push price adjustments and reforms forward to a proper degree in the midst of streamlining and rectification.

#### 1. The Guiding Philosophy for Deepening Reform

Some comrades felt that we must draw up a new state price reform program on the basis of a planned commodity economy as well as China's special conditions. We must do several things to accomplish this. First, we must shift the goal of price reforms away from "marketization," because the ideology that most influenced price reforms in the past was one which sought a completely "marketized" market economy. Second, we must do away with the idea that "the state regulates the market, and the market guides enterprises," because this idea is aimed at setting up a market economy. Third, we must abolish the dual track price system.

In addition, some comrades stated that as we deepen price reforms, we must earnestly criticize various ideological trends connected with bourgeois liberalization. In the area of price reform theory, we must criticize various mistaken ideas, such as the theory that Marx's theory of labor is out of date, the theory of market socialism, the theory that all situations can be dealt with by regulating the market, the theory that prices are determined by supply and demand, and the theory that prices can be unconditionally freed.

#### 2. Price Reform Measures During the Period of Streamlining and Rectification

Some comrades felt that it is correct to take as the number one goal during the three year period of streamlining and rectification the control of inflation and stabilization of prices. However, they also felt that price stabilization should not mean to control only retail prices, but that the prices of the means of production should also be controlled. The comrades who held this point of view stated that because the prices for the means of production remain high to this day, they are spurring inflation (which is fueled by costs), and that this problem should not be taken lightly. They felt that prices can be stabilized as long as total demand is controlled. We should take advantage of this opportunity to advance price reforms in an organized and planned manner, with good leadership. They even felt that this could be the last chance for price reform before the year 2000.

Some comrades brought forward four concrete suggestions for future price reform. First, both the symptoms and the cause of the problem should be addressed. As streamlining and rectification is carried forward, we should also resolve the problem of seriously irrational price relationships. Second, we should make use of two different methods, price regulation and price freeing, simultaneously. As we place the reforms within the context of readjustment, we should also strengthen management and oversight of commodities whose prices have been freed. We must use the method of readjustment to resolve the problem of uneven distribution of profits between different industries and different products, and we must resolutely stabilize prices for basic consumer goods. Third, we must focus on the key issues. We must place priority on solving the problem of irrational prices for food grains, cotton, oils, and coal. Fourth, we must narrow the distance between the "dual tracks," which is to say that the discrepancy between planned prices and market prices in the dual track system must be reduced.

Some comrades felt that during the next two years of streamlining and rectification we cannot place priority on raising prices. Low grain prices are primarily a problem because the relative profit yielded by food grains versus other agriculture products is low. The way to solve the problem is to lower the prices of products that yield high profits. As for energy resources and raw materials, they feel that the problem originates within the intermediate link, and that an important part of the solution of their price problem therefore lies in earnestly rectifying that link, and in putting a stop to price gouging and indiscriminate price hikes. However, there are now some problems connected with streamlining and rectification. There is a tendency to attempt to "solve everything with a single swipe of the knife" as we strive to clamp down on credit and demand. We have not been able to muster the necessary resolve to take enterprises that expend high quantities of energy and shut them down, suspend their operations, amalgamate them with

other enterprises, or switch them to production of alternative products. This has made it difficult to raise benefits to the state or to lower prices. These comrades feel that it is very necessary to study the experience during the 1960's with shutting down, suspension of operations, amalgamation of enterprises, and switching of production. They feel that six measures must be implemented during the next two years of price reform. First, it should be made clear that price reforms cannot be delayed, and that we cannot take them slowly, or a little bit at a time. We should build on the foundation of streamlining and rectification as we carry out price reform as quickly and as thoroughly as possible. Second, in the area of price formation, we should switch from the method of setting prices on the basis of average costs to the method of setting prices on the basis of costs for low-grade products. Prices for products of the same quality within a single marketing district should be the same, which would bring about rational price differentials between different districts. At the same time, we must make it so that prices are set by large enterprises instead of by the circulation link. Third, in the area of the price management system, we should implement state prices or guidance prices for important products, and guidance prices should be the principal price form. Fourth, we should implement and strengthen management within each industry. We must strengthen the power of the departments in charge to manage their subordinate departments and industries. Price departments should only play an investigative, oversight, and price setting guidance role. Fifth, practical measures must be taken to coordinate price reforms with reforms in other areas, such as fiscal, monetary, and planning policy. For example, we should revise the contract base figures for profit retention and taxes of various districts. We should change tax categories and tax rates, implement a system of compensation for appropriation of funds, and implement a wage compensation system. Sixth, land rent and house rent reforms should be slowed down.

Other comrades stated that price reforms must be carried forward at a rapid pace, and that they must be carried out with the precondition that inflation will be controlled. However, this does not mean that nothing can be done until these things have been accomplished. For example, it is imperative that the prices of food grains and coal be raised immediately, but we must make sure that those prices which are newly raised will not exceed the level they had been at one year earlier. The current economic circumstances do not inspire optimism. We cannot wait until streamlining and rectification have been completed to do price reform. For this reason, during the course of streamlining and rectification, the central leadership must muster great resolve. In particular, they must do a good job of rectifying companies, because social retail sales last year totalled 740 billion yuan, of which more than 130 billion yuan were accounted for by price hikes of 18.5 percent. Statistics indicate that 64 percent (over 80 billion yuan) of these 130 billion yuan went to the circulation sector, of which

40 percent (more than 30 billion yuan) was personal income. Therefore, we must make it an important task to rectify the circulation link. If we do a good job with this, it will play an important role in the stabilization of prices.

### *3. The Problem of Prices in the Dual Track System*

Some comrades felt that circumstances will not allow for abolition of the dual track system in the near future, and that during the period of streamlining and rectification the main thing we must do is alleviate the currently existing conflicts in the dual track system by reducing the number of products subject to the dual track system and by reducing the dual track price differential. In order to achieve this, some comrades pointed out that several methods have been put into practice and proven effective, including the system of integrated prices (which is currently being used, and is also called the mixed price method), the Shijiazhuang Experience, either raising planned prices or further expanding the scope of market-regulated prices, and increasing the proportion of prices subject to market regulation. Every department and district should continue to employ these methods in accordance with actual conditions, and they should further perfect these methods. Other comrades stated that the dual track system has a lot of problems right now, and that we should not be afraid to backtrack in order to solve our problems. They said it would be compatible with the laws of economics to bring important products that are in extremely short supply, affect the national economy as well as people's livelihood under unified purchasing and marketing, and that we could also implement a state monopoly. In so doing, we could assure that the needs of key enterprises or departments are met. Other comrades stated that, as we carry out dual track prices, we must vigorously strengthen the position and role of planned prices. For example, the products subject to state prices might account for only 10 percent of all products while constituting over 30 percent of total sales and exerting more than a 50 percent influence upon the social economy.

There was another opinion to the effect that with the current organic structure of the economy, the dual track price system impedes the "blood-producing" function, i.e.—it is a type of septicemia, and that it should therefore be abolished. However, the comrades who held this opinion also felt that what must now be abolished is the dual track price system for the means of production, but not for all products. They advocate that capital goods be organized through one main channel—materials departments, carry out unified purchasing and marketing of capital goods, and that the only intermediate link should be the original primary, secondary, and tertiary stations. As for pricing measures, we can implement two prices (planned prices and market prices) to purchase goods, and one price (unified prices) for sales.

**Tasks Outlined for Deepening Economic Reform**

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[Article by Yang Peixin (2799 1014 2450): "What Has To Be Done To Deepen Reform"]

**[Text] Reform Must Be Deepened**

It is necessary to improve the economic environment and restructure the economic order, to eradicate currency inflation, and to deepen reform. Some people suppose that reform means "delegation of authority and making concessions," passing too much authority as well as financial and material resources to local jurisdictions, enterprises, staff members and workers, and peasants, thereby creating a situation in which financial revenues do not cover expenditures, bank credit outpaces savings, and there is an excess distribution of national income leading to currency inflation. They place the blame for this round of inflation on reform and opening to the outside world. Such a formulation does not square with reality. The further readjustments of 1981 were directed at the hidden currency inflation that was a legacy of the period of "gang of four" rule, the government deficit and the adverse balance of international payments that Hua Guofeng's "foreign leap forward" occasioned, as well as the large issuance of currency brought about by the 1979 increase in government procurement prices for agricultural by-products, and the eight percent rise in prices during 1980. At that time, we relied on reform to halt that round of reform successfully. Rural villages instituted "contracting to individual households"; cities expanded enterprises' decision making authority, and some enterprises experimented with contracting; and a system was instituted whereby revenues and expenditures were divided between the central and local governments, each being responsible for balancing its own budgets. Reform meant the delegation of authority and making concessions, allowing peasants as well as enterprises, and staff members and workers to have authority, responsibility, and benefits in order to arouse their zeal. Changes were also made in production relationships in order to advance the development of productivity. Between 1979 and 1982, agricultural production increased 7.5 percent each year; light industry output increased 11.8 percent each year; and the output of industry as a whole increased 7.2 percent each year. Thanks to the development of production, the fiscal deficit fell from 17 billion yuan in 1979 to 2.93 billion yuan in 1982; the increase in currency issuance declined from 7.9 billion yuan in 1980 to 4.2 billion yuan in 1982; foreign currency reserves rose from a negative figure to a net \$11.125 billion; the rate of price increases declined 1.9 percent in 1982, and a buyers' market appeared for consumer goods. The reform both further perfected production relationships for an advance in the development of production, and also lay a material basis for halting currency inflation. How can one say that reforms caused inflation? As for the new round of inflation that

began in 1983, that was attributable to impatience for success in building the four modernizations, and an inflation of investment brought about by efforts to quadruple output. The payment of 40 percent of investment for wages, for the purchase of bricks, tiles, lime, sand, and stone, as well as for moving expenses increased expenditures of consumption funds, thereby adding to the lopsided inflation of administrative control expenses, and to the purchasing power of social groups. This was the reason for a corresponding inflation of consumption funds. Inasmuch as reforms of planning, government finance, investment, banking, foreign trade, and foreign exchange had only just begun, and the old system continued to occupy an important position, inflation was intensified. In analyzing the deep down sources of inflation, some people list the "five major forms of contracting" as an important reason. The so-called "five major forms of contracting" means rural contracting to individual households, urban enterprise contracting, contracting of responsibility for industrial inputs and outputs, local government financial contracting, and the contracting of foreign trade. Others even came up with the "five no forms of contracting" to refute the aforementioned "five major forms of contracting." The "five major forms of contracting" are a main achievement of 10 years of reform, so a refutation of the "five major forms of contracting" is virtually a refutation of reform. The "five no forms of contracting" trend of thought struck at peasant, enterprise, and staff member and worker zeal as an important reason in helping to bring about the current slide in production.

Reform must be deepened to eradicate inflation and readjust the national economy. Improving the economic environment and restructuring the economic order is inseparable from reform. When inflation is contained and economic readjustment begins to be carried out, it will be particularly necessary to rely on the deepening of reform to insure its realization. Both the rectification of proportional imbalance in the national economy and the development of agriculture require adherence to and perfection of the policy of contracting output to individual households. The development of energy, transportation, and raw and processed materials industries and basic facilities requires adherence to the enterprise contracting system, industrial contracting, and local financial contracting, as well as deep reform of the investment system and the planning system. Price reform must also be conducted step by step in conjunction with economic readjustment. The eradication of inflation also requires fundamental reform of the government financial, and banking systems.

**Adherence to and Deepening of the Following Several Kinds of Reform**

Right now, it is necessary, first of all, to adhere to and deepen reforms in the following regards in order to maintain continuity in policies for reform and opening to the outside world.

**Adherence to and Perfection of the Rural Output-Linked Contract Responsibility System. The contracting of**

output to individual households advanced the country's agricultural production to a new stage, and brought about a bumper harvest in agriculture in 1984. Moving agriculture out of its stagnation will also require adherence to and perfection of the contracting of output to individual households. The large rural population and the too small amount of cultivated land that households contract truly impairs the benefits of scale; however, this is something that the country's large population and limited amount of cultivated land determines, and it is not caused by the contracting of output to individual households. Economic cooperating before, during, and after rural production should be encouraged, while the state should provide more funds and material support, increasing its investment in agriculture. However, this is predicated on continued adherence to and perfection of the contracting of output to individual households to maintain the continuity of rural economic policies.

**Adherence to and Perfection of the Enterprise Contracting System.** In the process of further readjustments to halt inflation during 1981, enterprises such as the Capital Iron and Steel Works, the No 2 Automobile Plant, and the Pan [2372] [sic] Iron and Steel Works instituted successful contracting. The year 1983 saw an upsurge in urban economic system reform centering about the promotion over a wide area of enterprise contracting. Unfortunately, all-out spread of the contracting policy was halted later on, a change made to compulsory promotion of the "substitution of taxes for the surrendering of profits" in an effort to get enterprises to pay income taxes. Subsequently, the retention of profits by enterprises was used in the reform of relations between the state and enterprises to invigorate enterprises. Nevertheless, the substitution of taxes for the surrendering of profits of 1983, and the subsequently instituted two step substitution of tax payments for the surrendering of profits evolved first into a rise in the turnover tax rate, which took away 50 percent of enterprises' net income. Later on, it evolved into a 55 percent income tax on enterprises' profits in addition to which some enterprises had to pay a regulation tax as well. Finally, it evolved into a levy on enterprises' retained profits for energy and transportation funds, and directed sales of government bonds and key construction bonds. (In 1989, another 10 percent budget regulation fund levy was applied.) The foregoing levies took approximately 90 percent of enterprises' net earnings. It was also stipulated that money issued as bonuses in the salaries of staff members and workers, subsidies paid to staff members and workers for nonstaple food price rises, and medical and welfare expenses, which had formerly been paid for as a part of costs, would also be paid out of enterprises' retained profits. This meant that enterprises had no money left for technical transformation, or for the expansion of reproduction. Enterprises lost the ability to accumulate their own funds, to conduct their own technical transformation, and to develop themselves, and this brought about a 22 month-long slide in the income that enterprises paid the government. It was against this backdrop that the State Council decided in 1987 on a complete

promotion of the enterprise contracting system, thereby turning around the 22 month long-slide in government revenue. The contract system grew up in the midst of great storm and stress. No sooner did the contract system appear than it came up against the difficulties of the inflation of 1987 and 1988 during which prices rose, and enterprises' prices of raw and processed materials rose faster than the prices of finished products. Since the contract system linked the interests of the state, enterprises, and staff members and workers, enterprises had to fulfill their state contract quotas first, only after which they could use retained profits for the development of production and to increase the earnings of staff members and workers. This forced both enterprises and staff members and workers to fight with their backs to the water, exerting themselves to the utmost to eliminate losses and to insure the country's financial income first. In the process of improving the economic environment and restructuring the economic order, and deepening reform during 1989, enterprises first faced serious shortages of energy, raw and finished materials, transportation, capital, and foreign exchange, and they were sorely tested by slack sales, the accumulation in inventory of finished products, and slow turnover of funds, which made maintenance of even simple reproduction difficult. Only the contract system's arousal of zeal in enterprises and in staff members and workers enabled a certain amount of development of industrial production to help the country get through its difficulties. The ability of the enterprise contract system to stand up to numerous severe tests has demonstrated it to be a fine mechanism for mobilizing enterprises, staff members and workers to surmount difficulties, and to struggle forward. When macroeconomic conditions improve, the operating climate turns for the better, and the government no longer increases enterprises' tax burdens, the enterprise contract system will be bound to show its mettle further in creating economic miracles. Because the contract system was promoted in an all-out way for only a little more than two years, many regulations were not perfected; therefore, we will have to both adhere to and perfect the enterprise contract system to show its superiority further. For example, contracting with all staff members and workers should be promoted, gradually reducing individual contracting. The contracting period should be set for five years to prevent too short a contracting period resulting in enterprises having no choice but to make intermediate range development plans, and the growth of short-range expectations. As a result of differences in price increases for individual trades and industries over the past two years, they have shared weal and woe unequally in terms of contracted amounts and rates of incremental increase. With the changed situation in large price fluctuations, contract amounts and rates of incremental increase should be set as realities warrant.

Enterprise contracting is bound to develop in the same ways it developed in outstanding enterprises such as the Capital Iron and Steel Works, the No 2 Automobile Plant, and the Jilin Chemical Plant, thereby setting the

stage for combining outstanding enterprises with laggard enterprises, or forming entrepreneurial blocs to bring about a readjustment of the industrial structure. The enterprise contract system will open the way to economic readjustment.

**Further Perfection of the Local Government Contract System.** The 1987 implementation of a system of dividing revenue and expenditures between the central and local governments, holding each responsible for balancing its own budget, provided impetus for the arousal of local government enthusiasm for increasing financial revenue and for active development of the economy. Subsequently, Guangdong Province and Shanghai went on to institute local government financial contracting, contracting with the central government the delivery of a fixed amount of financial income, the excess reverting to the local jurisdiction for use. This further aroused the enthusiasm of both the central government and local governments. The impatience to quadruple output during the past several years, the unreasonably high prices, and the overly high taxes on the profits of tobacco, alcoholic beverage, textile, household electrical appliance, and oil refining processing industries stimulated local government competition to get into processing industries, and sparked warfare in the panic buying of cotton, silkworm cocoons, wool, and other industrial raw materials. It also fostered the holding back of raw materials and the blocking of their movement. It should be realized that this was caused by state loss of macroeconomic control. Once macroeconomic control is improved, prices ironed out, and the local government financial contract system further perfected in the process of improving the economic environment and restructuring the economic order, and deepening reform, these situations can be eradicated. If we one-sidedly blame on local government financial contracting the headlong rush of local governments into processing industries, and the outbreak of cotton, silkworm cocoon, and wool wars, completely refuting and cancelling out the value of local government financial contracting, that is bound to be risky. Now that industries are experiencing hard times, and when counties are showing fiscal deficits, we must adhere to local government financial contracting, allowing governments to insure central government financial revenues first as a means of helping stabilize the fiscal budget and reduce the central government's fiscal deficit. At the same time, we should realize the money that Guangdong is retaining from local government financial contracting is somewhat large, but that Guangdong is also providing basic facilities such as electricity, transportation, and communications to hasten economic development. Returns on its investment far exceed those from central government investment projects. Consideration should be given to whether key construction projects in provinces should be turned over to local governments for operation, re-dividing functional and financial authority between the central and local governments. This would do more to hasten economic development and increase returns from investment than concentrating money and authority in the

central government. Therefore, the current need is to adhere to and perfect local government financial contracting, making the most of advantages and eliminating disadvantages for better functioning.

**Need To Continue and Further Perfect the Industrial Contract System.** The railroad, petrochemical, nonferrous metals, petroleum, and coal sectors have all practiced large scale industrial input-output contracting. The railroad sector's large scale contracting has scored outstanding success. Thanks to the railroads' large scale contracting and the promotion of contracting by all railroad bureaus, the railroads have begun to be able to accumulate capital of their own, to conduct technical transformation, and to develop themselves. The Guangzhou-Shenzhen Line produced a "Guangzhou-Shenzhen Model," enabling this line to rely on itself for electrification, which changed its backward appearance, much to the approval of foreign guests and overseas Chinese. The three major projects for the multiple tracking of the Hengyang-Guangzhou Line, the Datong-Qinhuangdao Line, and the East China Line were also built at fairly high speed. This showed that railroad large scale contracting is the only way in which to accelerate the building of the country's railroads and change the sluggish situation in transportation. Other sectors have also had definite success with large scale contracting. If we will change the overly low railroad freight prices, and the overly low prices of petroleum and coal, as well as promote enterprise contracting within the industry to stimulate further the enthusiasm of enterprises and of staff members and workers, we will be bound to score even better achievements. Therefore, we should adhere to and perfect industrial contracting, affirm achievements made, and continue to move ahead.

**Foreign Trade Contracting Should Also Be Gradually Improved.** Various deficiencies have occurred in foreign trade contracting, and some improvements have also been made. For example, the manufacture of some products has been taken out of the large national corporations to prevent price hikes and panic buying of export goods inside China, as well as the lowering of prices and dumping abroad. The problem now is how to accelerate progress in industry and trade in tandem, giving more enterprises foreign trade decision-making authority, or linking enterprises and foreign trade units to form joint industrial and trading companies that enables enterprises to weather the storms of international markets to gain experience in order to accelerate the importation of advanced technology, focus on the needs of international markets, and offer appealing new products at a low price and that are very able to compete in international markets.

#### **Two Reforms For Improving the Macroeconomic Control System**

Adherence to and perfection for many years of the fundamental reforms that have been successful in rural contracting of output to individual households, the enterprise contract system, local financial contracting,



industry contracting, and foreign trade contracting, as well as in the development of economic diversification, will advance development of the country's industrial and agricultural production, and increase the supply of commodities. Thus, it will substantially eradicate a total demand that exceeds total supply, and the overdistribution of national income to insure completion of the tasks of improving the economic environment and restructuring the economic order, and halting currency inflation. State Council leaders have already expressed their intention to continue to carry on the foregoing fundamental reforms, maintaining policy continuity. In perfecting the macroeconomic control system, I believe conduct of the following important reforms is also necessary:

**(1) Establishment and Perfection of the Macroeconomic Regulation and Control System in Which the Central Bank Is Paramount.** During the early 1950's, halting the currency inflation that raged for 12 years beginning in 1937 under the Kuomintang regime required the turning around of diverse economic components such as private industries and businesses, and individual peasants under leadership of the state-owned economy to put revival and development of the national economy on the track, establishing a highly efficient macroeconomic regulation mechanism. The Finance and Economics Committee, or Central Finance Committee as it was known for short, established at that time under leadership of the State Council, brought into close contact the leaders of diverse economic sectors including banking, government finance, and trade to promote effective leadership and regulation of the national economy. A macroeconomic information mechanism was set up under leadership of the Central Finance Committee. The banks set up price indices for eight large cities, and bank statistics were sent to the Central Finance Committee every 10 days reporting prices rises and falls, increases and decreases in the amount of currency in market circulation, increases in bank savings accounts, and the total amount by which bank savings had increased. The Ministry of Trade set up an information system on the amount of principal commodities in inventory and sales. The Ministry of Finance established statistics on various receipts and expenditures. The Central Finance Committee kept close watch on and analyzed bank and market trends. If prices were stable and bank savings deposits decreased very much, banks were instructed to turn over the new savings to trade departments so they could expand procurement for a strengthening of the position of state-owned businesses, and to replenish state-owned businesses inventories. After the Korean War broke out in June 1950, and the anti-America, aid-Korea war began in October 1950, when the market began to gyrate, banks were directed at once to curtail credit, and trade units sold off goods in large quantities thereby shrinking the money market and halting price fluctuations. This kind of regulation was done at least once every 10 days; when the situation was serious, it was done daily. It must be acknowledged that in a situation of diverse economic components, and countless changes in the market in the

twinkling of an eye, this kind of close watch on market activity, and a mechanism for intervening to make adjustment at any time, and for sensitively reflecting the situation was very successful. Not only did it maintain price stability for a long time, but it also consolidated the state-owned economy's leadership over private industry and business, and individual peasants, thereby enabling the national economy to recover and develop rapidly. Today's socialist system in which enterprises are run independently, in which individual family and privately owned enterprises, as well as three kinds of partially or wholly foreign-owned enterprises have appeared in cities, and in which rural villages have developed family contracting of farming has, in fact, shaped markets made of up diverse economic components. Given these circumstances, sole reliance cannot be placed on five-year plans and annual plans for macroeconomic planning to provide permanent solutions. It is necessary to adapt to the myriad changes in the market, building a mechanism for the reporting of macroeconomic information once every 10 days, and for flexible and timely readjustments. The rebuilding today of a mechanism such as the Central Finance Committee is unrealistic. It would be preferable to charge the Chinese People's Bank with setting up an authoritative overall mechanism for keeping abreast of macroeconomic information, for suggesting attendant macroeconomic readjustment measures, and for providing the State Council with policy-making reference data for approvals and implementation. The Chinese People's Bank should also rely closely on the various specialized banks, dividing up the task of keeping track of capital trends, the Bank of Agriculture keeping track of rural capital and market trends, the Industrial and Commercial Bank keeping track of industrial and commercial capital and trends, the Bank of China keeping track of supply and demand in foreign trade, foreign exchange, foreign capital, and export goods, and international market trends, and the Construction Bank keeping track of investment trends, industrial policies, and the orientation of investment in fixed assets. China's specialized banks differ from commercial banks in foreign countries in that they take part in macroeconomic regulation, being both policy banks and financial enterprises. Loans of a policy nature at preferential interest rates should be discounted by the Ministry of Finance, or else bank profits turned over to the state should be deducted in order to insure no impairment of banking enterprises' economic accountings.

**(2) Establishment of a Chinese Style Investment System.** During the country's first five-year plan period, a highly centralized central government investment system, as well as an associated planning system, a financial system for unified state control over receipts and expenditures, and a system for the unified allocation of materials were established on the Soviet model. In neither the USSR nor in China did these system eliminate investment inflation, investment starvation, and low returns from investment. As a result of the appearance of individual household operations, private enterprises, and three kinds of partially or wholly foreign-owned enterprises



during the 10 years of reform, authority for enterprises to make their own decisions about operations was instituted. Government budgeted investment came to occupy an ever decreasing percentage of society's investment in fixed assets. Although we cannot return to the pre-reform period, eliminating individual household operations, private enterprises, and three kinds of partially or wholly foreign-owned enterprises for the re-institution of a highly centralized central government investment system, we must look squarely at reality, seek truth in facts, adjust to the new circumstances, and establish a new investment system. While adhering to State Statistical Bureau macroeconomic planning, shouldn't we select some organization to keep abreast of industrial policies, to re-allocate investment, to control the scale of investment, to prevent distorted inflation of investment effectively, to guard against large ups and downs, and to change fundamentally the low returns from investment to insure the long-range, stable, sustained, and coordinated development of the national economy? We cannot begin anew in today's situation, but we should use the existing foundation of the Chinese People's Construction Bank. This bank has more than 2,000 county branch banks. It also has conducted systematic surveys of major products and key industries, and it has accumulated experience in the issuance of capital construction loans and technical transformation loans. It should be built up to become an organization for keeping abreast of industrial policies, for promoting the development of the energy, transportation, and raw and processed materials industries, adjusting proportional relationships in the national economy as needed. The Construction Bank should use electronic computers, establish statistics and an information network on nationwide investment that accurately reflects investment trends, and that announces market information and investment trends for local governments and enterprises. Banks should be permitted to offer preferential interest rates for long-term savings (such as 10 percent interest on savings held for two years or more) in order to take in long-term funds for use in issuing long-term credit to support key construction projects. A ruling should be made that when funds, which society and enterprises have raised themselves, are used in construction, they [the funds] should be deposited in the Construction Bank. Investment statistics and information that the Construction Bank uses can provide investment units with complete data to help units curtail investment in products for which excess production capacity exists, and shunt investment to investment-short sectors. Statistics should speak in a businesslike way about effective lines of investment. Whenever production of a product should be increased, or whenever production of a product should not be increased, simply to announce a single page industrial policy without providing specific information about rates and amounts is not enough. The Xingshan Chemical Plant in Hubei Province produces yellow phosphorus, a processed material in very great demand that enjoys wide sales throughout the country, that can be exported for a profit, and whose price is on the rise that should be developed in accordance with industrial

policy. However, as a result of the recent opening in the Yichang Special Region of four yellow phosphorus plants, and the opening throughout Hubei Province of a total of more than 10 yellow phosphorus plants, Xingshan Chemical Plant yellow phosphorus sales have become slack, and the plant verges on bankruptcy. Thus, only a national investment and product market information network that provides timely information can prevent the building of more yellow phosphorus plants and a waste of investment. Industrial policies should not be immutable. They should not be set for several years on end or even for a single year, but rather they should be changed both in terms of kinds of products and amounts produced. Prompt circulation of information nationwide can help enterprises keep abreast of industrial policies. "Information is life," and "information is imperative." Leaders in Heilongjiang Province planned to open a wristwatch plant, and they pushed the idea ceaselessly. It was not until later when the Construction Bank provided them national wristwatch plant output figures and output figures for wristwatch plants then under construction once they went into production that the leaders finally said: "We're too late. We cannot do it." When money is invested in building plants today, consideration has to be given to whether a market exists and whether money can be made. Information can help investors most in making correct decisions, and this is much more effective than using administrative methods for strict examination and verification.

We are now applying administrative methods to hold down investment inflation. We are using our hands to hold down a gourd water ladle. As soon as we let go, the ladle will bounce back to the surface. Control of the scale of investment, readjustment of the economic structure, and preventing investment inflation from leading to currency inflation requires establishment of an effective mechanism that uses economic methods to effect a cure at the source. Thus, consideration should be given to reform of the investment system, building the Construction Bank into an organization for the control of investment, so that it can work in conjunction with the State Statistical Commission's macroeconomic control to build an investment system suited to China's national circumstances.

The deepening of reform will provide definite support for improving the economic environment and restructuring the economic order. We must genuinely get a firm grip on the deepening of reform, using it to attain the goals of rooting out currency inflation, and advancing the long-term, stable, consistent and coordinated development of the national economy.

How to carry out the policy of further improving the economic environment and restructuring the economic order, and deepening reform will require incessant and deep study by theoreticians and the people of the whole country. I have provided only my incompletely formed personal view here for reference in common discussion.

### **Enterprise Groups Show Vitality, But Problems Remain**

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[Article by Liu Gang (2692 0474): "Analysis of the Current Status of China's Enterprise Groups"]

[Text] Authoritative sources disclosed that, as an important part of the deepening reform process, China will continue to expend efforts to develop enterprise groups.

In the wake of the thorough restructuring of the economic system in recent years, and as enterprises gain more power to make decisions and develop more lateral economic ties, enterprise groups have surfaced like mushrooms after a spring rain in China. Enterprise groups showed great vitality at birth, but during their development, there are some problems that require study and improvement.

#### **The Birth of Enterprise Groups**

In China's pre-restructured economic system, enterprises were "little governments" with comprehensive administrative functions. Out of the existing more than one million industrial enterprises, a few are state-run enterprises or collective-owned enterprises which at one time were bureaucrat capital confiscated by the state or nationalistic capitalist industries turned joint state-private enterprises, but the majority are the product of New China's Seventh 5-year Plan, created by state investments and put under the ownership by the whole people system. Because of the lack of understanding of socialist economic law and practical experience, enterprises were not independent producers and managers of commodities under the highly centralized management system of the product economy in the pre-1978 era. In fact, they were administrative agencies of the government vested with production functions. Besides carrying out the plans formulated by their superior administrative and management organs, enterprises had to take care of the workers' housing, meals, childcare, childbirth, old age, illnesses, and even burial arrangements. Enterprises' social welfare responsibilities were the heavy burden that hampered their development. They consumed much of enterprises' human, financial, and material resources. This is the condition the country finds itself in under the present system, a condition that is not conducive to the development of socialist greater production.

One striking characteristic of the old economic management system was, like a self-sufficient manor-type economic organization, enterprises were "large in scale and complete in structure or small in scale and complete in structure." According to a 1978 study made by the Machine-building Industry Ministry, out of more than 6,000 enterprises, more than 80 percent were "all-purpose plants." This was true too for the textile and light industries and in other industrial sectors. Many

enterprises basically handled their own processing and produced their own parts and spare as well as the finished products. This blocked all technological advancements and prevented any increase in labor productivity and was one of the main reasons for the low labor productivity rate and the low economic efficiency among China's industries.

Around 1980, in order to change this backward situation, the State Council and other pertinent departments reorganized and consolidated the industrial structure and set up different kinds of specialized companies and allied companies. Although this round of reorganization was successful to some extent and the condition of enterprises being "large in scale and complete in structure" and "small in scale and complete in structure" was beginning to change, many ideological issues and practical problems kept such industrial reorganization from moving forward more quickly and comprehensively. Hampered by departmental, trade, and regional restrictions and the ownership system, and because administrative measures continued to be the means to manage the economy, the only way out was to implement political and economic structural reforms from the top down. Accelerating the development of specialization and division of labor and enterprise cooperation, promoting lateral economic ties, and establishing enterprise groups became the breakthrough points for the reform of China's industrial enterprise organizational structure.

#### **Rapid Growth**

After 1979, encouraged by the pertinent departments at the central and local levels, China's enterprises began to cement broad and multiformated lateral economic ties, and some vigorous and energetic enterprise colonies and affiliations appeared on the scene. Through experimenting with enterprise merger, auction, transfer of property rights, and the shareholding system as a part of the reform process, enterprise organizational structure was improved. At the end of 1988, the number of integrated economic organizations has grown to more than 10,000 nationwide; their GVIO [Gross Value Industrial Output] for the year was 38.3 percent higher than the previous year's, and realized profit was 42.5 percent higher. Horizontal economic integration not only improved economic efficiency but also made possible the soaring success of enterprise groups.

In the last few years, due to enterprises' strong subjective demands and the environment's urgent objective needs, the number of enterprise groups in China has increased rapidly, and their scope has continued to expand. By the end of 1988, there were more than 1,500 fairly large enterprise groups. They were found primarily in the coastal, economically well-developed regions, especially in provinces and municipalities like Guangdong, Shanghai, and Jiangsu. Large, multi-industry, trans-regional enterprise groups have mushroomed. The Shoudu Iron and Steel Group has more than a hundred enterprises in 18 provinces and municipalities and is a large enterprise group integrating the metallurgical,

machinery, electronic, construction, and tourist industries; it has purchased stocks in a large U.S. corporation and is quickly becoming a trans-national enterprise group. The links that hold the enterprises within a group together are becoming more diverse and complicated. Since enterprise groups, unlike individual enterprises, enjoy collective advantages and can perform multiple functions, they are playing an increasingly important role in the economy.

The Shenzhen Caige Group is headquartered in the Shenzhen SEZ [Special Economic Zone] and enjoys exceptional advantages. They have conducted some advanced experiments on reform and opening up. Out of the 158 members, the group owns, controls, or has stocks in 95 enterprises, or 58.8 percent; their combined assets are worth 1.3 billion yuan. They are emerging as parent company and subsidiaries linked in capital and are dependent on one another for survival. The group is organized based on the principle that members participate out of their free will and may withdraw freely; there is no management fee, and services are free. Shenzhen is adjacent to Hong Kong. The electronics and processing industries are highly competitive; many medium-sized and small enterprises are looking for backing. The Caige Group spent some of their pooled capital to set up a science and technology development research institute, open a financial company, purchase Hong Kong's Yigao Computer Company, set up a wholly-owned enterprise in Kenya, and purchase 95 sales outlets in the United States. Today, this group has cooperative relations with more than a hundred companies in over a dozen countries and regions. It generates more than one-sixth of the nation's income from the export of electronic products. The merit of the Caige Group's organizational structure is that it promotes the merging of industry and scientific research, industry and finance, and accelerates the development of an externally-oriented economy.

Since the 1980's, accompanying the restructuring of the financial system, many different types of investors have entered the market. Investment in China's automobile industry has become even more dispersed and even smaller in scale. The Number 2 Automobile Manufacturing Plant strived to play an exemplary role as a large enterprise in transforming the enterprise organizational structure. In 1980, it formed the nation's first allied company, the East Wind Automobile Allied Company. After eight years of reform and experimentation, it has become an automobile industrial complex made up of large, medium-sized, and small enterprises which manufacture, assemble, and produce all the parts for their own use. The group combines development, manufacturing, sales and services and is producing products under economies of scale; the East Wind truck is its lead product. It consists of 278 enterprises scattered in 27 provinces, municipalities, and prefectures and accounts for one-third of the total output, GVIO, sales revenue, and realized profit of China's automobile industry. In the course of forming this enterprise group, they followed the principle of optimizing the allocation of the

stock of assets and giving play to economies of scale and promoted specialization and division of labor in a systematic and methodical way to create a new mix of enterprises. They struck down the pattern of "small in scale and complete in structure" and redundant constructions typical of China's automobile industry. One after another, the state put the Liuzhou, Hangzhou, Yunnan, and Xinjiang Automobile Manufacturing Plants under the Number 2 Automobile Group and implemented the "four centralizations": Centralized programming, planning, management, and administration. They eliminated five inferior models, and the member units designed new products and reshuffled personnel to meet the needs of specialization. Because production is under centralized program and parts are standardized, it reduces repetitious production and waste and increases overall efficiency. To help the Number 2 Automobile Group escape the separatist practices of the central and local governments, in October 1986, the state approved the Planning Commission's listing the Number 2 Automobile Group's main objectives separately. As a provisional measure during the transition from the old to the new system, listing the group separately in the state plans gives it more decision-making power.

#### Tremendous Vitality

The new phenomena and new things produced by the restructuring of China's economic system are the inevitable result as China's enterprise organizational structure changes from a single-form to a multiple-form structure and represent the natural trend of enterprise reform and economic development. China's enterprise groups are only seven to eight years old, but in that short period of time, they have become a tremendous driving and organizational force behind the development of the productive forces.

Because enterprise groups play a role in optimizing the enterprise-mix and promoting the proper flow of key factors of production, even though the state is adding little or no input, they still promote the readjustment of the enterprise organizational structure, product-mix, and industrial structure and generate a balanced amount of economies of scale.

Enterprise groups play a very important part in China's participation in international competition and interchange. Enterprise groups are economically stronger and technologically more advanced; they have more elbow room to manipulate their raw and processed materials and finished products. All these make it possible for them to utilize both foreign and domestic funds and resources and do business in both the foreign and domestic markets. In recent years, many large Chinese enterprise groups have emerged as members of a "national team" when they compete in the international market. For example, last year, the Wanbao Group exported 340,000 refrigerators, accounting for 60 percent of the nation's refrigerator export; it earned \$120 million in foreign exchange and has become one of the eight largest manufacturers of refrigerators in the world.

The development of enterprise groups is of strategic importance in guaranteeing the principal role of the socialist ownership economic system in the national economy. The two enterprise groups individually listed by the State Planning Commission, the Number 1 and Number 2 Automobile Groups, manufacture two-thirds of the automobiles in this country. This indicates that the state can rely completely on several large enterprise groups to guarantee the principal role of the public ownership system in the economy and successfully guide the nation's economy at the macroeconomic level.

Improving the economic environment and rectifying the economic order are central economic tasks for these three years. Whether the national economy can be extricated from the present predicament will very much depend on whether the large- and medium-sized state-run enterprises can cope with the present problems. Enterprise groups represent an advanced productive force; they can indeed be the main force in the rectification and improvement movement.

#### Problems That Require Immediate Attention

At present, there are four serious problems blocking the development of enterprise groups in China:

There are too many groups and too little planning; a substantial number of groups exist more in name than in reality. Many so called enterprise groups are loosely formed affiliations or are in fact administrative organs turned into administrative-type organizations. The latter came into existence because of administrative orders and are linked together by administrative authority. A survey of 178 enterprise groups in Guangdong Province shows that such "enterprise groups" make up 13 percent of all enterprise groups. Other groups are in fact new enterprises created and financed by other enterprises or are jointly financed affiliated enterprises. These affiliations have their positive role, but they are not enterprise groups, nor do they have the comprehensive functions of enterprise groups.

The links that hold an enterprise group together are often not firmly attached, which contributes to the short life-span and short survival rate of enterprise groups. A survey of the light industrial system shows that only 12 percent of the enterprise groups managed to survive for five years or more. Some enterprise groups may not have been formally disbanded, but they exist in name only. Many factors contribute to this situation: Some groups do not have a common link that holds the enterprises together; others only have a weak link; some enterprises reluctantly form an enterprise group, and as soon as the market supply-demand relations change, out of self-interest, they begin to demand that the relationship be changed, at which time, it becomes difficult to sustain the group.

Some enterprise groups study or determine their internal relations, such as how to unify production, supply, marketing, personnel, finance, and resources, at the management level only. Because the old and the new

economic systems exist side by side today, management is still subordinated to government administration; without "grandma" [government backing], it is very difficult to maintain normal production. For this reason, when it is necessary to cut across regions, departments, and ownership systems in order to form enterprise groups, regional and departmental conflicts are often precipitated, and many enterprise groups are unable to mitigate or resolve those conflicts.

The development of enterprise groups conflicts with the present economic system in many ways. Today, China's fixed asset investment and loan quotas are handed down by the state to the local governments and enterprises' water and electricity supply is arranged regionally. After some enterprises joined an enterprise group outside of the region, many find themselves discriminated against with respect to fixed asset investment and loan allocations and water and electricity supply. Some enterprise groups may be individually listed by the State Planning Commission but are still the local governments' financial responsibility. So, when the state and local governments begin to eat from separate financial bowls and more power is handed to the local governments, it gives the localities more profit motivation but exacerbates market separatism and regional blockades. On the one hand, the state wants to see its plans fulfilled; on the other hand, local governments want to see their financial contracts with the central government fulfilled. As a result, conditions that guarantee production cannot guarantee fund availability and vice versa, and this restricts the development of trans-regional enterprise groups.

Practice proved that enterprise groups played a significant role in China's economic development. Whether we are looking at the near-term goals of adjusting the industrial structure and improving the economic environment or at the long-term objective of building up our economic strength to make this country an economic power in the 21st century, China should make an immediate decision to develop enterprise groups, promulgate a biased policy similar to the strategy to develop the coastal economy, give enterprise groups more power to make investment decisions and power to determine their own foreign economic activities, and promote the integration of industry and finance, so that the thousands and thousands of enterprise groups can truly become the national economy's main force, the "national team" that earns foreign exchange.

#### FINANCE, BANKING

##### Greater Role Seen for Shanghai's New Financial Market

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in Chinese 13 Feb 90 p 1

[Article by Li Zhiyong (2621 1807 0516)]

[Text] People may find it hard to believe, but despite the rather depressed market and the economic slump,

Shanghai's negotiable securities market and foreign exchange market are "doing a thriving business," and are bustling with people. On the first trading day of the 1990's, the volume of trade in negotiable securities was 500,000 yuan, and foreign exchange transactions amounted to \$2.5 million. Furthermore, during the year just passed, the volume of Shanghai's securities transactions exceeded 900 million yuan, and the volume of foreign exchange transactions was \$1 billion.

China's resumption of trading in negotiable securities, which grew out of financial reform, began in 1986. Shenyang took the lead in buying and selling debentures, closely followed by Shanghai. Very quickly market operations moved toward regularization, with rapid expansion of the scale and scope of transactions. Today, there are nearly 30 securities exchange points in Shanghai, and three negotiable securities companies. Twenty six different kinds of securities are marketed, including treasury bonds, and enterprise debentures and share certificates.

This has made financial experts say happily: Open style Shanghai negotiable securities markets radiate outward as they become increasingly well-developed and constantly grow in strength, and they naturally attract securities from all over the country to Shanghai. For example, more than 1 billion yuan of treasury bonds have been traded in less than two years, subscriptions from Shanghai residents amounting to more than 400 million yuan. The most conservative estimates call for an intake of more than 300 million yuan in treasury bonds from elsewhere within a year.

In terms of the volume of transactions (one half the total for the whole country), and the scale of the volume handled, Shanghai is now moving ahead to become the negotiable securities exchange center for the whole country.

Bankers regard the negotiable securities market as one of the "four legs" for raising capital for economic development. These four legs are government financial disbursements, bank loans, the use of foreign capital, and issuance of negotiable securities. Since the issuance of national treasury bonds in 1981, China has issued a total of 110 billion yuan worth of negotiable securities. This is a leg that cannot be overlooked. Today enterprises need for credit already exceeds the ability of banks to provide it. Thus, the negotiable securities market can concentrate idle capital in society, turn small amounts of capital into huge sums, make short-term funds into long-term funds, and turn consumption funds into production funds, employing redistribution for the effective allocation of funds in society, and a rational readjustment of the industrial structure.

If one says that the negotiable securities market involves countless city residents, then the foreign exchange market has even more affected the minds of entrepreneurs (including enterprises in which foreign traders have invested).

The Shanghai foreign exchange market was originally established for the purpose of evening out surpluses and shortages of foreign exchange among enterprises in which foreign traders invested, only later expanding to become an entrepreneurial unit for foreign exchange in the country. Only two years have passed since its founding, but it has already become completely merged into the existing economic structure, becoming an indispensable, organic, and integral part of it. It has also become a major symbol of Shanghai's investment climate and financial climate.

Virtually all enterprises in which foreign traders have invested have to deal with the Shanghai foreign exchange market to balance out foreign exchange. Foreign trading enterprises in the country, as well as industrial enterprises possessing authority to engage in foreign trade, and that earn foreign trade through exports, are also largely dependent on the foreign exchange market to implement the contract system. As a result, every time the rate of exchange between the American dollar and the renminbi slides or rebounds on the electronic screen in the exchange room of the Shanghai foreign exchange market, it produces a corresponding effect on Shanghai's economy.

In comparison with the negotiable securities market, the operation of the Shanghai foreign exchange market more closely parallels that of prevailing international practice. This is the sole foreign exchange market in the entire country that truly conducts open price competition (and not internally set negotiated prices). Every Thursday is trading day. The closing price on the previous day is the opening price on the following trading day, and the price of the American dollar completely tracks the market price. In its capacity as the central bank, the Chinese People's Bank also intervenes in the market when necessary, it does not resort to administrative measures, but uses economic measures instead. For example, when the rate of exchange for the American dollar tumbled wildly during 1989, the central bank three times used an "exchange stabilization fund" to buy up \$10 million in order to ease the decline.

Because it operates in this way, the Shanghai foreign exchange market has become a fairly flexible mechanism that reacts to changes in the domestic economic situation. During the first half of 1989, which was a sluggish period during which the various measures for improving the economic environment and restructuring the economic order had not yet taken effect, the exchange rate of the American dollar for the renminbi rose steadily in the Shanghai foreign exchange market, showing that the overheating of the economy, and currency inflation had not yet been completely halted, with the result that an ample supply of renminbi was available, and demand for foreign exchange was substantial. However, following the tightening of the money supply during the second

half of the year, results were apparent. The price of the American dollar plunged, falling a maximum of 48 percentage points on one trading day, setting off a shock. After the state announced a downward adjustment in the official exchange rate of the renminbi, the Shanghai foreign exchange market reacted at once. The exchange rate of the American dollar slowly rallied; however, right up until the first trading day of 1990, it lacked the strength to rally vigorously, reflecting a continuing serious shortage of renminbi.

Even though the Shanghai foreign exchange market has not get linked up with the international market, and though its foreign exchange prices are not yet directly influenced by the international market situation, it is increasingly watched internationally. Western news agencies frequently use the market situation as a subject for their reports, and the Shanghai offices of foreign financial institutions also frequently send personnel to observe the market situation and obtain first-hand data.

Shanghai was once a famous financial center of the Far East. Ever since reform and opening to the outside world, people concerned with Shanghai's prosperity have more than once discussed how to strengthen Shanghai's financial power gradually, and how to at least revive a portion of Shanghai's former position under the conditions of the new age. While improving the economic environment and restructuring the economic order, readjusting the industrial structure, and working toward getting the strategic accumulated strength for economic development during the 1990's, Shanghai has also given an important place to the deepening of financial reform. The municipal government has invited experts from all quarters to repeated consultation about and study of an overall design plan for financial reform.

With regard to the negotiable securities market, a policy will be followed of "perfection, consolidation, and development." It will be pursued in the gradual movement toward interchangeability, standardization, and regularization for the step-by-step attainment of goal of having domestic capital without incurring domestic debt, and using foreign capital without incurring foreign debt. Direct trading has gradually expanded to indirect trading. Beginning in 1990, the Shanghai Securities Exchange was founded, while at the same time, the Shanghai Securities Trade Association was founded. The existing control regulations will be used as a basis for further formulation of local rules and regulations such as an exchange code, a securities code, a transactions code, and broker control regulations.

The experts have suggested making the foreign exchange market operate even more like a market, gradually expanding its scope, opening it up to take foreign exchange from individuals. In order to increase its regulation and control capabilities, the central bank should also substantially increase the foreign exchange market's foreign currency and local currency equalization fund, thereby possessing an economic technique for timely intervention in the market. The state should also

emphasize support in making the Shanghai foreign exchange market into a national foreign exchange center, biding its time until the situation is such that it can move toward internationalization.

People believe that the day the financial market becomes international will be the time when Shanghai will look out from the western shore of the Pacific Ocean with a new face and renewed prestige.

## INDUSTRY

### Liaoning Leaders Confer on Declining Industrial Output

90OH0473A Shenyang LIAONING RIBAO in Chinese  
11 Feb 90 p 1

[Text] Snows that auger well for the crops have fallen since the lunar New Year, so everyone is more hopeful about galloping ahead during this year of the horse. However, in the province's industrial production, a serious situation of unanticipated overall decline and tremendous slippage has occurred. During the evening of 7 February, provincial CPC Committee secretary Quan Shuren [0356 2885 0088], provincial governor Li Changchun [2621 7022 2504], and several deputy provincial governors jointly analyzed the January production situation, concluding that unless the situation is turned around at once, not only will fulfillment of this year's production plan and financial revenue quota be endangered, but the stability of the overall economic situation and social tranquillity will be bound to be adversely affected. For this reason, the provincial government convened an emergency telephone conference on 10 February for the purpose of mobilizing the broad masses of staff members and workers on the industrial and financial fronts throughout the province to rally spirit, to take action, and to do all possible to overcome difficulties for a rapid turnaround in the currently stymied production situation.

In the telephone conversation, deputy provincial governor Wen Shizhen [5113 0013 7201] first analyzed the January industrial production situation in the province in the following terms: Gross industrial output value above the township level stands at 5.92 billion yuan, down 12.2 percent from the same period in 1988. After allowing for the effects of the lunar New Year vacation, it is still six percent lower than during the same period in 1988. Such a large decline has never occurred during the past 10 years or more. Fourteen cities show negative growth, including the cities of Dandong, Chaoyang, and Shenyang, where the decline is greater than 20 percent. With the exception of the tobacco and petroleum industries, the 12 industries under direct provincial jurisdiction show negative growth. This includes light industry, building materials, and labor reform industries in which the decline is more than 20 percent. The direct consequences of the tremendous slide in production is a great increase in the number of enterprises operating at a loss and in the number of enterprises that have partially

halted production. Profits and taxes paid the state have greatly declined, and more enterprises have fallen on hard times.

In his analysis of the reasons occasioning the tremendous slip in industrial production, Wen Shizhen said that from the standpoint of the external situation, the main contradiction lies in a market slump. Continued rise in the amount of capital required to turn out finished products, and the further intensification of the capital shortage have become primary contradictions limiting the development of production. The capital shortage is simply an expression of this contradiction in concentrated form. The key to the problem is market sales, which suffer from an irrational product mix and weak product competitiveness. Wen Shizhen believes that these objective reasons cannot be disregarded, but that the main reasons are apathy, insufficient readiness to meet new circumstances and difficulties, failure to take the organization of production firmly in hand, lack of detailed planning, and in some cases even a lax and perfunctory attitude, negative complaining, and ideological backsliding in some enterprises and regions.

After analyzing the situation in industrial production, Wen Shizhen reiterated that the difficulties are not too great, and that both a large potential and a lot of room for maneuver exist. The Marxist doctrine that everything has two aspects must be adhered to with regard to difficulties. The masses must be aroused and their spirits rallied to try to make up January's shortfall during February, and to show proper increase during March and April in order to take the initiative in fulfilling quotas for the whole year. Next Wen Shizhen proposed specific actions to be taken with regard to current industrial production, including stabilizing the overall situation, developing markets, relying on scientific and technical progress for readjustment of the product mix, using all available means to invigorate the flow of capital, stabilizing policies, doing a better job of macroeconomic regulation and control, continuing to launch campaigns for double increase and double conservation, and conducting investigation and study at the grassroots level to do a good job in providing services to enterprises. In talking about invigorating the flow of capital, he said: It is necessary to reduce the between 1.7 and 1.8 billion yuan norm for producing finished products, breaking it down level by level. The emphasis should be on clearing up "triangular debts" within the province, first effecting settlements within industries in all cities, between one industry and another, between industry and commerce, and between industry and trade units, and then settling such debts all over the province. Funds should be appropriately tilted to support key enterprises. The siphoning away and diversion of funds should also be straightened out.

On behalf of the provincial Government, Wen Shizhen earnestly hoped that enterprise administrators, particularly plant managers and directors of large- and medium-sized enterprises, would courageously carry the heavy burdens of this crucial period, bearing difficulties for the

country. Leading comrades in government and industrial departments at all levels even more should take immediate action. They should go down to the grassroots and into enterprises, and particularly into enterprises that have halted or semi-halted production to understand the situation there, to do more real work, and to genuinely help enterprises solve real problems, the large scale assignment of cadres to lower echelons thereby enabling a revival and development of production.

### Guangzhou Mayor Calls for Accelerated Restructuring

90OH0436A *Guangzhou GUANGZHOU RIBAO*  
in Chinese 14 Feb 90 p 1

[Article by Wu Jianhong (0702 1017 4767): "At a Meeting of Guangzhou Industrial Departments To Speed Up Restructuring of Their Product Mix, Mayor Yang Ziyuan Emphasized the Need To Restructure the Product Mix Faster To Ensure That Production Grows Steadily, and Suggested Ideas and Measures To Reverse Guangzhou's Current Excessive Industrial Slowdown"]

[Text] How can Guangzhou's current excessive industrial slowdown be reversed? At a meeting held by Guangzhou industrial departments on 13 February 1990 to speed up restructuring of their product mix, Mayor Yang Ziyuan [2799 6327 0337] pointed out the need for all departments and sides throughout Guangzhou to fully support the industrial sector in restructuring its product mix so as to ensure the steady growth of industrial production.

The excessive slowdown that occurred in Guangzhou's industrial production growth rate in January 1990 is an issue that is being followed with close interest. Mayor Yang Ziyuan gave an important speech about it at a meeting that was held by the municipal government on 13 February 1990 to restructure the product mix of industrial departments faster. He indicated that speeding up the restructuring of Guangzhou's industrial product mix and promoting technological advances will be a very significant way to quickly reverse the current excessive slowdown in industrial production. He said that factories and enterprises must look within themselves for ways to eliminate and alleviate the difficulties that they are now facing, such as slumping markets and inadequate funds, and set out on a new path of sustained, steady, and coordinated production development.

Yang Ziyuan gave the following reflections on Guangzhou's industrial production: Although Guangzhou's industrial departments worked hard in 1989 to restructure their product mix, which eased the market slump and fund shortages, we must realize that this work was passive, inadequately planned and, most importantly, underestimated the market slump that occurred in the last half of 1989. When faced with sudden market changes, many enterprises were caught unprepared, forced to restructure their product mix, and consequently achieved poor results. Although great successes were achieved in making technological advances,



obvious failures still occurred. For instance, the tasks of digesting, developing, and creating did not keep pace with the importing of advanced technology, we neglected to import scientific management methods along with large amounts of advanced technology, equipment, and techniques, and we paid attention to developing the roles of engineers, technicians, and specialists while underemphasizing the development of "three-in-one teams" of a mass character (consisting of workers, technicians, and cadres) to tackle technological reforms and key tasks. As to production management and administration, even though Guangzhou's factories and enterprises emphasized market development and industrial-commercial cooperation to resolve key problems, they did not do enough looking within to tap their internal potentials. This could be seen mainly in problems, such as a considerable number of enterprises neglecting to economize by cutting down their consumption of materials, which made them increasingly more dependent on banks, while leaving them increasingly less able to develop, upgrade, and improve on their own. We must think about these problems, study them conscientiously, and work out ways to resolve them.

Yang Ziyuan emphasized in his speech the current need to do a good job of restructuring the product mix and making technical advances as follows: Under the present conditions of slumping markets and sharp competition, restructuring their product mix is a matter of vital importance for enterprises. Technical advances are the basis for restructuring product mix. How should product mix be restructured? 1) It must be planned and programmed. Every trade in each industry must work out its own plans and programs. The past errors of "indiscriminately following others" must not be repeated. Surveys and studies must be well-conducted, markets must be analyzed scientifically, and decisionmaking must be made more scientific. Moreover, attention must be paid to mobilizing the vast numbers of staff members and workers and bringing the roles of "three-in-one teams" into full play. A small number of people must not be allowed to work behind closed doors, and decision-making must be made more democratic. 2) The basis for restructuring product mix is that it must be guided by national industrial policy, adhere to the principle of meeting the needs of the masses, and be oriented to both domestic and foreign markets. Qualified enterprises must do all they can to break into the international market. 3) Attention must be paid throughout the process of restructuring product mix to doing one's best and focusing energies on fighting battles of annihilation, while "cultivating blossoms everywhere that bear little fruit and trying to meddle too much in processes that are fully underway" must be prevented. Consumption of materials must be cut down in an all-round way, a number of new energy-saving and low-consumption products, techniques, and technologies must be developed, and the market competitiveness and economic efficiency of products must be basically enhanced.

## AGRICULTURE

### Barriers To Increased Agricultural Investment

90OH0338A Beijing NONGYE JINGJI [PROBLEMS OF AGRICULTURAL ECONOMY] in Chinese  
No 12, 23 Dec 89 pp 8-11

[Article by Kong Xiangliang (1313 4382 0081)]

[Text] All sectors across the nation have been calling for increased investment in agriculture. The lack of coordination among our current reform measures, however, has erected major barriers to increasing such investment.

#### Barrier 1: The "Price Scissors" Policy Between Agricultural and Industrial Products

After the introduction of the responsibility system of linking remuneration to output in the countryside, China's agricultural investment has changed profoundly in both form and method. On the one hand, instead of the old "dual system" in which the state and the collective were the two sources of investment, now we have a diversified investment system featuring the state, localities, collectives, and peasant households, with the last the most important. Investment in production by myriad peasant households is the decisive factor in determining the level of agricultural investment. On the other hand, while government appropriations used to lie at the heart of agricultural investment, now we have an "invisible hand"—comparative interests—powerfully steering the flow of investment funds originating in the peasant household. To make the peasant household, the predominant agricultural investor, increase agricultural investments continuously, we need a rate of return comparable to those in other sectors. However, despite our effort during the last several years to narrow the price scissors between agricultural and industrial products, the scissors has actually widened instead of narrowing. According to sample surveys by some departments, the prices of several major agricultural capital goods rose almost 60 percent between 1983 and 1989. Meanwhile, the prices of the four major crops, maize, wheat, soybean, and rice, increased less than 40 percent in the same period, and that after factoring in negotiated prices. Owing to sharp jumps in the prices of agricultural capital goods, net agricultural output value for every 100 yuan worth of materials consumed declined from 234 yuan in 1984 to 210 yuan in 1987. Productivity in farming was only 600 yuan, one-seventh of those of the secondary and tertiary sectors in the countryside. The steep climb in the opportunity costs of investing in agriculture has seriously dampened the peasants' production enthusiasm, making them less willing to increase agricultural inputs. In any case, the meager profits of agricultural production itself makes it hard for peasants to increase investments in agriculture. The government's "price scissors" policy is a form of extortion on agriculture that is incompatible with the policy of increasing agricultural investments.

To solve this problem, I think we should take the following coordinated measures: 1) Continue the policy



of subsidizing agricultural production. Take effective measures to ensure the "three linkages" and make sure that the proper amount of goods and materials get to the hands of peasants in good condition and at the right price; 2) Unclog the supply channels of agricultural capital goods. Reduce circulation stages. Crack down harshly on official profiteering. Improve commodity price supervision to prevent the prices of agricultural capital goods from being jacked up wilfully; 3) Given the fact that grain shortages are a long-term trend and that the incomes of urban and rural residents are still quite low, the buying and selling of grain cannot be deregulated for a long time to come. Out of consideration for both urban and rural interests and assuming that we will adhere to the dual-track pricing system in the near and medium term, everything should be done to stabilize grain procurement by the state at 50 billion kilograms. Moreover, as living standards of township residents improve and the consumption of nonstaple foodstuff increases in relative terms, we should reduce the amount of grain procurement as appropriate. The procurement prices of agricultural products should be raised properly, state and local financial resources permitting, so that prices approximate value as much as possible; 4) By raising agricultural productivity, we should try to lower the consumption as well as magnitude of value of unit agricultural output. This can be achieved as follows: Where conditions are ripe, we should practice scale management as appropriate, vigorously improve socialized services, and increase agricultural scientific and technical investments.

#### **Barrier 2: Profit-Driven Investment as a Result of Local Financial Contracting**

After local financial contracting was introduced as a means whereby the central government delegated authority and gave profits and as a way of reducing financial pressure on the central government, the ability of local governments to raise revenues and invest has increased rapidly. In 1986, capital construction investment accounted for 18 percent of total expenditures in the budget of the central government, down from 28.8 percent in 1980. In contrast, extra-budget funds amounted to 87 percent of government revenues in 1986, up from 53.3 percent in 1980. If funds available for distribution by the central government are limited, the potential of increasing agricultural investment by tapping local financial resources is tremendous. On the other hand, after the market was given a bigger role, economic interests have replaced administrative appropriations as the guide in industrial investment and considerations of local interests have come to the fore. In the wake of local financial contracting, local governments at all levels have been scrambling to invest in industry and commerce in order to broaden local revenue sources and beef up local revenues. Projects that require little investments but have a short turnover cycle and pay off quickly can be found in the economic development plan of just about every local government. Agricultural production requires a long lead time, is highly susceptible to natural disasters and therefore risky, and has a small profit margin. Besides, the higher the output of grain, the greater the amount of government subsidies. Naturally, therefore,

nobody is interested in agriculture. The slogan "make agriculture the base" can be found only in the speeches of leaders. What we have is "slogan agriculture." The way the performance of local leading cadres is evaluated only reinforces the tendency to make this kind of investment decisions. The evaluation of the performance of a cadre is often based on the fiscal conditions in his jurisdiction during his tenure and the number of projects run by the province, county, or township that are visible to all. As a result, local governments at all levels have been pouring money into profitable projects, instead of concerning themselves with basic work that would help build up a reserve of strength or investing in agriculture.

Agricultural development requires increased inputs. However, the current policy of local financial contracting precludes an increase in agricultural investment by local authorities. At a time when conditions do not yet exist to completely decontrol the prices of agricultural products and make agriculture a high-income industry, I suggest that we take these steps to remove the above barrier and ensure that local investment favors agriculture: 1) Establish a tenure and objective responsibility system for governments at all levels. Institute a new method to evaluate government leaders that will include agricultural investments as a percentage of government spending and the rate of agricultural development as important evaluation criteria. If agriculture is not doing well, then the government in question cannot be considered as having fulfilled its responsibilities and its leaders will not be promoted. 2) Determine a state procurement base figure for each province, municipality, or county which "exports" agricultural products, particularly grain, to other parts of the nation. Any amount in excess of this base figure should all be procured at negotiated prices. The extra expenses thus incurred should come from the pockets of "importing" regions and provinces as a means of mobilizing the enthusiasm of localities for investing in agriculture. 3) Set up a system of agricultural development funds at governments of all levels. A special fund for agricultural development should be financed by a portion of township tax receipts, taxes paid by self-employed individuals in industry and commerce, and farmland use taxes. That way agricultural investments can increase steadily as other industries develop. 4) Economic departments in charge at the higher levels should strictly adhere to the technical and economic validation process for project and do a good job in examining and approving projects to prevent the departments below from launching projects, competing for investment, and wasting funds blindly and ensure that more funds go to agriculture.

#### **Barrier 3: Indiscriminate Macroeconomic Tight-Credit Policy**

Credit is an important channel through which the state invests in agriculture. After "appropriations were replaced by loans," this channel assumed additional significance. Beginning last year, however, the government has adopted a tight-credit austerity policy on the macroeconomic level in an effort to cool the overheated economy

and check inflation. This policy has reduced the disparity between total supply and total demand but it has also produced a notable side-effect: It has tightened the belt across the board, making no distinction between one industry and the next. It treats the Agricultural Bank in the same way as it does other special banks when it comes to the paying and depositing of revenue funds and payment funds and the buying of miscellaneous government bonds. Nor does it treat rural credit unions of a collective nature any differently. In fact rural credit unions are even required to turn over special deposits to the authorities above. Between 1984 and 1988 alone, 50 billion yuan in reserve funds were turned over. In 1987, 50 billion yuan in special funds were paid to the central bank. In 1988, the entire Agricultural Bank system purchased a total of 5.8 billion yuan worth of treasury bonds. In drawing up its credit plan, not only did the government fail to give preferential treatment to agriculture, but it has done just the opposite. In 1988, the plan called for a 31 percent increase in total fixed assets loans by banks across the nation, a 16.9 percent increase in working fund loans for industrial and commercial enterprises, but a mere 11.6 percent increase in agricultural loans. For 1989, the plan projected total lending by banks to increase 15 percent, or 160 billion yuan, but provided for a mere 11 percent increase in lending by the Agricultural Bank. Agricultural loans were scheduled to go up by 8.7 billion yuan, only 5.4 percent of the increase in total lending by the nation's banks. All this was in sharp contrast to policies in other countries aimed at protecting rural finance. In Japan, regulations stipulate that the reserve fund withdrawal and deposit rate of the central rural treasury be lower than that of large urban banks by 80 to 90 percent. In Thailand, the government exempts the Agricultural Bank from paying withdrawal and deposit reserve funds, taxes, or profits to ensure the availability of funds to be invested in agriculture.

To enable the macroeconomic belt-tightening policy to effectively prevent economic overheating, especially industrial overheating, without doing the same thing to agriculture, where additional investments are badly needed, we must modify the current macroeconomic control policies properly. A discriminating retrenchment policy is needed to ease agricultural credit as appropriate. Each year agricultural loans should increase by a higher percentage than loans by other special banks. Restrictions on total rural credit should be relaxed. The ratio of reserve funds paid by the Agricultural Bank should be reduced along with the amount of treasury bonds it is required to purchase. Rural credit unions of a collective nature should be treated properly, their special deposits reduced and eventually abolished.

#### **Barrier 4: The Contradiction Between Low Interest Rates on Agricultural Loans and Contracting by the Agricultural Bank**

Compared to interest rates on industrial and commercial loans, interest rates on agricultural loans are quite low and interest rates on loans to finance grain production are even lower. In the past two years, interest rates on all kinds of

loans have been raised in an effort to check economic overheating, but interest rates on agricultural loans have not been increased significantly. In laying down regulations to govern the floating of interest rates, the central bank explicitly stipulated that interest rates on loans might go up 30 percent, except for those for the production of grain, cotton, and oil-bearing crops. For these loans, standard interest rates would still apply. In the past, the low interest rates on agricultural loans had little effect on agricultural investment. Back then banks were not concerned about making a profit—credit funds were centrally controlled. People at the top and below “ate from the big rice pot.” What was needed was credit. As long as there was a credit target, things worked fine—never mind the returns on loans. As the commercialization of banks gained momentum in recent years, however, with the Agricultural Bank being the first to introduce contracting into its operations, the allocation of credit funds became markedly commercialized. For their own self-interests, banks are channeling more and more funds into nonagricultural production, with a subsequent decline in credit funds available for investment in agriculture. Suppose 100 is the total amount of lending by the Agricultural Bank. During late 1980, the ratio of agricultural, industrial, commercial, and other loans was 22.8:10.5:65.1:1.5. By late 1988 the ratio was 14.2:21.4:59.7:4.7, with agricultural loans dropping 8.6 percentage points. The fact that agricultural loans have a long maturing period and are more risky does nothing to help increase agricultural investments.

To remove this policy incompatibility, we must adjust the profits and revenues of the Agricultural Bank so that they fall in line with commercialization reform. 1) Calculate the “opportunity costs” of agricultural loans based on the actual amount of agricultural loans made, maturing periods, and interest rates, and work out full subsidies so that the Agricultural Bank will not suffer financial losses as a result of issuing policy-required agricultural loans. 2) Raise the profit retention ratio for bank contracting. 3) Raise the Agricultural Bank's bad debt reserve fund ratio appropriately.

#### **Barrier 5: Unrestrained Competition Among Banking Institutions in the Countryside**

In the wake of economic vitalization and banking reform, a variety of banking institutions have come into existence one after another. At present, institutions that offer banking services in the countryside include the People's Bank, the Industrial and Commercial Bank of China, Agricultural Bank, agricultural credit unions, Construction Bank, Bank of China, Communication Bank of China, and the Rural Cooperative Fund. In addition, a number of nonbanking institutions also offer such services as savings accounts, fund-raising, postal savings, and short-term lending for enterprises. Amid cries of fund shortages, these institutions and units have all been increasing business offices and opening up branches to absorb every kind of idle funds in the countryside. Within the jurisdiction of state-run farms in Heilongjiang, for instance, the Construction Bank alone absorbs almost 90 million yuan in savings

each year, three percent of all loans on the farms. To expand the scale of lending, special banks have been conducting a prolonged "savings war," made all the more fierce by burgeoning services like postal savings and short-term lending for enterprises. Apart from the Agricultural Bank and People's Bank, however, most of these institutions have no commitment to aid agriculture and do not use the funds absorbed in the countryside to support agriculture, but to help industry and commerce and finance urban production and construction, leading to a reduction in the sources of rural funds. Funds needed for agricultural production and the procurement of agricultural byproducts are the responsibility of the Agricultural Bank and agricultural credit unions. Some localities, though, have plans, but not funds, and are forced to pay peasants with IOU's. Such conditions no doubt constitute another barrier to increasing agricultural investments.

Our proper response should be: 1) intensify the Central Bank's macroeconomic regulation and control of various special banks and stipulate that banking institutions other than the Agricultural Bank and credit unions set aside a specified percentage of their deposits to be transferred to the Agricultural Bank for investment in agriculture; 2) in accordance with the principle of "using in agriculture what you have gotten from agriculture," postal departments should channel their rural savings deposits to the Agricultural Bank through the central bank to aid agricultural production; and 3) we should improve the leadership and supervision of rural cooperative funds and enterprise fund-raising to urge them to spend their funds on agriculture.

### February Exports of Cereals, Oils

HK2603141790 Beijing CEI Database in  
English 26 Mar 90

[Text] Beijing (CEI)—Following is a list showing the volume of China's exports of cereals, oils and foodstuff

in February 1990, according to primary statistics released by the General Administration of Customs.

Name	Unit	Feb 1990	Feb 1989
Pig	head	173,925	215,656
Poultry	in 10,000	275	255
Beef	ton	3,439	1,434
Pork	ton	5,818	3,335
Chicken	ton	2,114	1,282
Rabbit	ton	535	1,429
Egg	in 1,000	15,314	26,209
Aquatic	ton	31,341	14,877
fish	ton	4,415	2,833
prawn	ton	7,874	2,711
Cereals	ton	335,716	590,239
rice	ton	4,066	54,744
soybean	ton	89,766	66,938
pulses	ton	34,474	31,339
maize	ton	179,138	311,679
Vegetables	ton	48,832	36,712
Fruit	ton	9,402	8,675
orange	ton	1,886	4,220
apple	ton	3,325	937
Sugar	ton	52,237	1,465
Canned food	ton	32,171	29,130
pork	ton	2,359	2,953
vegetables	ton	19,789	20,986
fruits	ton	8,333	3,246
others	ton	1,690	1,945
Vegetable oil	ton	5,190	868
Peanut	ton	26,235	16,860

### Wuhan Holds Conference on Training College Professors

90ON0321A Beijing ZHONGGUO JIAOYU BAO  
in Chinese 2 Jan 90 p 1

[Article by Ma Siyuan (7456 1835 2266): "Training of College Professors Urgently Needs To Be Strengthened; Teachers' Academic Level Low, Clear Age Gap Has Appeared"]

[Text] During the past 10 years, China's ranks of ordinary college teachers have grown quite rapidly, and an imbalance between quality and quantity has emerged; with the constant deepening of educational reform, the current training of college teachers no longer meets the needs of developing circumstances, and urgently needs strengthening. This was the consensus of opinion among the comrades who attended the conference on training college teachers which was recently held in Wuhan by the Personnel Department of the State Education Commission.

The comrades attending the conference reviewed the increase in the number of teachers at China's institutions of higher learning over the past 10 years. In 1980, there were 240,680 college teachers; by 1988, the number had increased to 390,320, of which only 15.2 percent had attended graduate school. Moreover, at many local institutions and newly-established institutions, only five percent of the teachers had attended graduate school. At the same time, an unduly large percentage are young teachers. Of these, 180,580 are young teachers under 35 years, accounting for 47.3 percent of the total number of teachers, while teachers between 36 and 45 account for only 14.5 percent. Meanwhile, the aging of high-ranking teachers is also very conspicuous. The average age of professors and assistant professors is 58.3 and 52.7 respectively, and a distinct age gap has appeared between old and young teachers.

In order to rapidly raise the professional level of teachers, since 1980, institutions of higher learning throughout China have trained a large number of teachers through various means; over 150,000 teachers have been trained under the state plan alone. In 1985, the State Education Commission established two college teacher training exchange centers in Beijing and Wuhan, respectively, and a national-, regional-, and provincial-level college teacher training network, headed by the Beijing center, has already been basically established. However, some departments and institutions do not adequately recognize the importance of teacher training, and do not give enough attention to it; funds for training teachers are insufficient, and the authorized strength of school teaching staffs is tight; and policies related to school teacher management are incomplete. Such factors as these have hindered the normal development of teacher training.

In view of this situation, the comrades attending the conference believed that with the constant deepening of educational reform, now and for a period in the future,

development of the college teacher force will consist mainly of stabilizing its scale, optimizing its composition, and improving its quality, and this requires strengthening the training of college teachers. First, it is necessary to increase recognition of the importance of college teacher training, and treat teacher training as the basic, long-term task of optimizing the composition of the teaching force and accomplishing objective management. At the same time, it is necessary to clearly define the key points of the current teacher training in one's own region and school, and to provide graduate course training to teachers who have not attended graduate school, and especially to young teachers who teach specialized courses and specialized basic courses. Newly added young teachers must be provided with systematic training in educational theory and practice, while schools which lay equal stress on teaching and scientific research, and whose conditions are relatively good, should promptly select and train a body of young and middle-aged academic leaders and mainstays.

The comrades attending the conference also pointed out that college teacher training should adhere to the principles of basing training within China, stressing on-the-job training, stressing key points, and strengthening practice; it should start from reality, and adopt different forms of training, strictly avoiding measures for resolving the problem in one single stroke. At the same time that various colleges are upgrading the professional quality of their teachers, they must not slacken their efforts to conduct ideological and political education.

In consideration of the practical difficulties involved in teacher training and in releasing teachers from their regular duties for training, the comrades attending the conference hoped to establish as soon as possible a system of norms for scientific evaluation and assessment, and closely combine training, assessment, and promotion under a policy; at the same time, stipulations must be worked out regarding the living expense allowance for teachers during the period they are released from work for training. During the past few years, many localities and schools throughout China have profitably explored this area.

### Reporters Cover NPC Opening

HK2003144190 Hong Kong ZHONGGUO TONGXUN  
SHE in Chinese 1200 GMT 20 Mar 90

["Special feature" by Shi Chuan (4258 1557): "Sidelights on the Coverage of the Opening of the Third Session of the Seventh National People's Congress"]

### [Text] Strategic Positioning

The time for the formal opening of the Third Session of the Seventh National People's Congress [NPC] was set for 0900 on 20 March. However, shortly after 0700 this morning, teams of reporters were already braving the cold wind and were heading for the Great Hall of the People. At around 0800, hundreds of them were already

waiting inside the conference hall. Photographers carrying portable ladders rushed straight to the foot of the rostrum for the best position from which to photograph the opening ceremonies. Those who came in late never had a chance and simply had to content themselves with the "second tier" or the "third tier." Naturally, the Central Television people, being the "big brothers", had the best position. This is hardly a surprise. After all, they do have the responsibility of directly transmitting the opening of the session to the whole world. The Chinese International Broadcasting Station also carried live coverage of the event. When President Wan Li declared the session open, reporters noted that a total of 37 video-cameras of various sizes were busy sweeping alternately at the rostrum, the delegates' section, and the military band. In addition, 200 more cameras were heard clicking endlessly. It was indeed an imposing sight.

### Seizing Every Opening

Among the more than 700 reporters, those from Hong Kong number a few dozen and they are also the liveliest bunch. Most of those who arrived at the conference hall an hour ahead of schedule were Hong Kong reporters. Their objective was quite obvious: to take advantage of the few spare moments before and after the session to hound some targets and extract some "material" from them. The "persistence" of the Hong Kong reporters is almost legendary. Compared with their mainland counterparts, most are younger and much quicker on their feet. The manner in which they "go after" some "key targets" can almost be described as being in "hot pursuit". On the other hand, mainland reporters appear more inhibited and often seem intimidated by the big names.

### "Hot Pursuit"

Yang Guang, deputy secretary general of the Third Session of the Seventh NPC—as well as a few famous NPC delegates, Hong Kong and Macao delegates, plus officials from some provinces and cities—often become the "prey" of the reporters. The minute Yang Guang enters a room, he is immediately surrounded by a huge group of Hong Kong reporters. Questions leap out of the reporters' mouths as dozens of tape recorders are held near his head. At the same time, video cameras held by the bigger men are focused on this press officer of the session. Everyone wants to capture every word that comes out of his mouth, hoping that something newsworthy will be picked up. Another favorite target of the "hot pursuit" is Guangdong Province's Governor Ye Xuanping who answers reporters' questions as he walks. A foreign journalist asked him in Chinese, "Are you keen on coming to work in the central organ?" Ye replied smilingly, "I am always interested in whatever kind of work given to me. At the moment, I am more interested in my work in Guangdong." The deputies in charge of Hong Kong and other famous personalities are also keen targets of Hong Kong reporters. Every time they appear, they are immediately surrounded by Hong Kong reporters who seem to appear out of nowhere and a

repeat of the "hot pursuit" is enacted. Even when the delegates were already seated, some aggressive reporters would still push forth for a quick interview.

### Security Check

Perhaps owing to the presence of top leaders today, all reporters were subject to a tight security check at the entry to the conference hall, not unlike the ones carried out before embarking on a plane at the airport. A detector emits a strange noise whenever it detects coins, keys, and money on the person. One reporter continued to have the detector make noises even though he had already taken out all metallic objects on him. Finally, he went through his pockets and found a few sticks of chewing gums. The reporters noted that all official delegates did not have to go through the security check.

### Every Man for Himself

After the official opening of the session, Li Peng read the government work report. At this time, most of the reporters retreated to the lounge. This reporter found approximately half of the reporters here busy writing, probably rushing their copies so that they can be sent out at the first available time.

To carry out their coverage duties, the reporters may be said to have demonstrated unusual creativity in obtaining their respective means of transportation. The Hong Kong reporters rely primarily on rented cars. Several papers jointly rented taxis at the daily rate of 180 yuan. Others resorted to the underground trains, buses, and minibuses. Still others borrowed motorcycles and bicycles from friends. In other words, it was every man for himself, all in the quest of mobility.

### Achievements Reported in Eliminating '6 Vices'

90ON0321B Beijing RENMIN GONGAN BAO  
in Chinese 5 Jan 90 p 1

[Article by Xiao Su (1420 5685): "Centralized, Unified Action To Eliminate 'Six Vices' in Various Localities Achieves Notable Results in One Month"]

[Text] This reporter learned at a press conference held by the Ministry of Public Security on 30 December 1989 that as of 15 December, over 140,000 "Six vices" cases and over 350,000 offenders were prosecuted in China in the space of one month.

Ministry of Public Security press spokesman Wang Jin-grong [3769 2529 2837], in specifically analyzing the circumstances of the prosecution, pointed out that over 2,500 of these offenders had been arrested in accordance with law, over 2,200 were being reeducated through labor, over 258,000 had received civil penalties, and over 74,000 were currently being investigated. Of the "Six vices" cases prosecuted, most were group gambling cases, with over 80,000 cases and over 240,000 persons, making gambling the vice with the largest number of cases and involved persons among the "six vices."

This centralized, unified action to eliminate the "six vices," which has been launched on a national scale, has attracted widespread attention from party committees and governments at every level. After the State Council convened a teleconference on eliminating the "six vices," party committees and governments of provinces, autonomous regions, and municipalities directly under the central government all quickly convened various kinds of conferences and worked out specific measures in light of the actual circumstances of each locality. Public security organs at each level have vigorously and speedily brought their functions into full play, and have struck relentless blows at illegal "six vices" activities. At the same time, they have also paid attention to closely combining the campaign to eliminate the "six vices" with campaigns against other illegal activities, conducted overall planning, and achieved tangible results.

Currently, the campaigns to eliminate the "six vices" in various localities have encountered problems and difficulties. Relatively conspicuous among these is the

serious shortage of jails and funds; and when cracking down on offenses involving the "six vices," there is also a lack of a necessary legal basis and clear policy limits. At the same time, in combatting the "six vices," public security bodies in various localities are careful to have a good grasp of policy limits. For example, gambling is banned, but not card playing, and when cracking down on gambling activities, they are careful to protect legitimate mass recreational activities; when cracking down on the abduction and sale of women, they are careful to distinguish between traders in human beings and people who receive a little money for introducing potential marriage partners; and so forth.

The Ministry of Public Security press spokesman hopes that every sector of society will continue to cooperate with public security organs in taking responsibility for this great task that concerns the future of the nation and the healthy growth of young people. As long as society as a whole makes a joint effort, the "six vices" can certainly be wiped out.

## EAST REGION

**Shanghai Pools Efforts To Care for Aged***OW2603050090 Beijing XINHUA in English  
0230 GMT 26 Mar 90*

[Text] Shanghai, March 26 (XINHUA)—Shanghai, China's leading metropolis, has combined individual, social, and government efforts to tackle the emerging problem with the the welfare of old people and the efforts have proved successful.

With the improvement in the standard of living in recent years, life expectancy getting longer and one-child families rapidly taking the place of big families, experts and officials long called for a new approach to the problems of the aged.

By the end of last year, the city had 1.77 million people above 60 years old, accounting for 14 percent of the city's total population, and 80 percent of them live with their children and relatives.

So, the responsibility for taking care of the aged first rests with their own kin. Adult children who live separately used to visit their parents regularly and help them with their household work.

Liu Qifu, a worker at the Shanghai No. 3 Rolling Mill, has worked on the night shift, the hardest of the three shifts, for several years running since his foster-mother died and his foster-father, a diabetic, became blind.

The middle-aged worker explained, "The reason why I choose the night shift is that I will have more time to look after my father."

Liu was recently chosen as one of 2,000 outstanding people devoted to the care of the old.

These people are most distinguished in voluntarily helping senior people who cannot look after themselves. Some offer financial support to the aged who are not even their relatives or friends.

Song Richang, honorary president of the Shanghai Municipal Committee of the Aging Population, and former vice mayor of Shanghai, said that to respect and support older people is a great tradition in China and is well preserved today.

Nowadays, 60 percent of the old people in Shanghai live in urban areas and almost all of them are retired workers enjoying pension and labor insurance.

Song noted, "The city has formed a network combining efforts of the family, society, and the state to take care of the aged in the new era."

According to Song, Shanghai was the earliest in China to practice the family planning policy. Its population growth has gone up by 1.07 percent a year over the past 10 years, and the number of people over the age of 60, by 4.15 percent.

The municipal government set up a committee to handle matters concerning the aged in 1984 and it has formed a network across the city with a total staff of 5,000.

Mass organizations set up by retired lecturers, scientists, and doctors are booming in this leading industrial center.

According to Song, Shanghai has hundreds of old folks' homes with a total of 9,000 beds, and issues relief funds every month for those who have neither children nor financial support.

The city has 5,400 groups formed voluntarily by local police and residents to help old persons by purchasing food and fuel for them, wash their clothes and take them to the doctor.

Some street neighborhood committees have set up service facilities such as canteens, public bathrooms, and barber shops for the aged.

It is learned that more than 2,000 recreational facilities set up by street neighborhood committees to enrich the lives of the old people attract 100,000 people a day. More than 38,000 people are studying at 200 colleges for the elderly.

Retired people have been organized to set up shops, tea houses, and tailoring services, thus providing convenience for people nearby and increasing their own incomes.

According to Song, about six percent of the old people in Shanghai still have financial difficulties.

He analysed that part of the reason is that these people cannot support themselves economically and the rest is that their legal right has been infringed upon.

In July 1988, the municipal people's congress approved a regulation to protect the right of senior people, and now the city has 275 legal consultancy service organizations specially for the aged.

Since then, Shanghai's courts have heard 1,600 cases involving maltreatment of old people, including theft of their property and interference in their remarriage plans.

Gui Shixun, a professor at the Institute of Population Studies of the East China Teachers University, said the study of the aged, an important aspect of the study of population, has aroused great attention in Shanghai, where experts and scholars from more than 200 colleges and universities are involved in such studies.

**Retirees Begin 'Second Life' in Shanghai***OW2603043790 Beijing XINHUA in English  
0239 GMT 26 Mar 90*

[Text] Shanghai, March 26 (XINHUA)—Traditionally, retirement meant a life of idleness for Chinese people. But not any more.

Many regard retirement, usually at the age of 60 for men and 55 for women, as the beginning of a "second life".

In addition to keeping fit and healthy, some of them study in colleges and many keep on making contributions to society.

Early in the morning, crowds of elderly people are found in parks practicing qigong (a system of deep breathing exercises), Chinese boxing, and disco dances.

According to Lu Hong, a retired middle school teacher of physical training, disco accompanied by lively music may help cheer up elderly people and make them happy and look younger.

The 60-year-old Lu said, "Many old people who used to regard singing and dancing as strictly the business of young people have voluntarily joined old folks' choruses and fashion teams to give performances and shows at schools and factories. Art troupes formed by elderly people are blooming here."

Reading has become a hobby of many elderly people in Shanghai.

"I was too busy with my work when I was younger. But now that I am retired I have more free time to read," said a 70-year-old man studying at the Shanghai Veteran Cadres College. He has written 10 volumes of novels, prose, and poetry since he retired 10 years ago.

It is learned that more than 38,000 retired people, with the oldest now 80 years old, are studying in 206 schools and colleges specially set up for the aged.

These schools offer such courses as literature, economics, arts and crafts, health care, calligraphy, painting, photography, cooking, and qigong.

Going to school and participating in social activities have not only helped older people widen their general knowledge but also shorten the gap between the older and younger generations.

Song Richang, honorary president of the Shanghai Municipal Committee of the Aging Population, said he likes to make friends with young people because he feels energetic and younger when he is with them.

Attracted by his excellent calligraphy and hospitality, young people often go to his house to consult the 84-year-old honorary president of the Shanghai Calligraphy Society.

The China Welfare Institute's Children's Palace, China's first in Shanghai founded by late Honorary State President Soong Ching Ling, now caters both to children and senior people.

According to Yu Zheguang, a founder of China's Modern Puppet Theater, he and many veteran experts are invited regularly to the palace to tell stories and join the children in their activities.

"It is my joy to continuously make contributions to the society in my remaining years," said Xu Yangqing, a retired senior engineer.

The 70-year-old Xu is very healthy for his age and is now an advisor to eight township-run textile mills on the outskirts of Shanghai and in neighboring rural Jiangsu and Zhejiang provinces.

Zhu Rongji, mayor of the city, said Shanghai is a place which has a wealth of veteran cadres, workers, and intellectuals, and he called on localities to improve their living conditions and offer more opportunities for them to further display their talents.

At present, Shanghai has more than 500,000 elderly people engaging in production management, scientific research, lecturing, and other activities.

According to a report by the Shanghai Municipal Trade Union Council, by the end of last year, retired people in the city had set up 1,000 small enterprises employing 90,000 people.

These enterprises usually process leftover bits and pieces of industrial materials into useful products, contract for small projects, and undertake maintenance or service work.

Elderly people with armbands, whistles, and flags are seen at bus stations, docks, roadsides, shops—almost everywhere in Shanghai—maintaining public order, keeping an eye on sanitation, and giving advice to passers-by.

It is learned that 90 percent of more than 20,000 staff members working in street neighborhood committees are retired people. They help people solve their problems, maintain social order, publicize family planning, improve environmental sanitation, educate young people, and take care of single elderly people and the handicapped.

### **Women in Fujian County Display Talents Outside Home**

*OW1303025890 Beijing XINHUA in English  
0150 GMT 12 Mar 90*

[Text] Fuzhou, March 12 (XINHUA)—During the spring tide of economic reform most women in Huian County, in east China's Fujian Province, have turned their eyes far beyond housework and have displayed talents and skills in many other fields.

The coastal Huian County has little farmland and a big population. The women there used to do all the farm work while their husbands went fishing on the sea or were away from home on business. So the women had to shoulder heavy loads in both agricultural production and housework.



The film "The Village of Widows" depicts the plight of Huian women in the old days. But today, the tradition has changed, so has the life of Huian women.

In 1981, Luo Liqiong, a 50-year-old woman in Yutang Village, Zhangban Township, contracted farmland to start a family farm. She spent about 10,000 yuan (about 2,000 U.S. dollars) levelling more than 17 hectares [ha] of land, improving the soil, rebuilding irrigation ditches, and draining canals with the help of her family.

Soon after, she had a bumper harvest of potatoes and peanuts.

Encouraged by her success, she set up an oil press and a peanut-processing factory in 1985. Her factories earned 4.02 million yuan, including 3.5 million yuan from exports, in 1988. At one time, her peanut exports amounted to almost 50 percent of the province's total.

Luo has been selected as a national model woman laborer. Her success story mirrors the change in the life of Huian women at large.

Huian women once had deep-rooted traditional feudal ideas. They kept their eyes only on their family. But nowadays they not only know how to do farm work but also know how to apply science in agriculture, and they use what they have learned in the development of production.

Zhuang Ruilan, who is more than 40 years old, in Zhuangnei Village, sponsored an agrotechnical training course in 1984 and she set up an agrotechnical consultative center in 1988.

In the past four years, with her help, local farmers have come to know the benefits of science and technology.

Zhuang says: "To help farmers here solve the problems they meet in agriculture is my duty, and my objective is to have them use science in agriculture."

She recalls: "In the past, what I did every day was cooking, washing, and doing other household chores for my husband and children. But now my life is enriched."

There are 140,000 women in Huian County. They have become the main force in agricultural production, township-run enterprises, and export-led businesses.

Eighty percent of all the women have joined in these enterprises. In the export-led industries are 97,000 women, representing 75.2 percent of the total.

In the past 10 years, more than 10,000 Huian women went to other parts of China on building projects; others went abroad for labor service.

Now, some of them have become factory directors and managers, and some have become technical personnel in various walks of life.

In August 1984, 54-year-old Liu Yawei, in Wufeng Village of Chongwu Township, set up a stone-carving

factory. It produces various kinds of stone statues, such as lions and other animals. Most of the products are exported to Japan, the United States, Hong Kong, and countries of Southeast Asia.

Last year, exports from the factory totalled 1.2 million yuan (about 250,000 U.S. dollars) and it paid 100,000 yuan to the state in taxes.

In 1985, Zhang Jiucui, director of the Women's Association in Dazhuo Village in Chongwu Town, inspired 15 women to set up an old folks' home with their own funds.

Zhuang said: "Taking care of old people by individual efforts is a very difficult job, as our husbands often go fishing on the sea for six months of the year. These old people without any relatives of their own suffered untold misery in the old days and they are entitled to lead a happy life in their remaining years."

## NORTHEAST REGION

### Heilongjiang Reports on Anticorruption Campaign

90ON0329A Harbin FENDOU [STRUGGLE]  
in Chinese No 1, 1 Jan 90 pp 24-25

[Article by Jin Feng (6855 7685) under the rubric "Party Spirit, Party Practices, Party Discipline": "We Must Punish Corruption Unremittingly—A Survey of the State of Heilongjiang's Effort To Clear Up the 'Nine Concerns' of the People"]

[Text] In August 1989, acting in the spirit of the CPC Central Committee and State Council Resolution on Addressing Several Public Concerns in the Near Future, the Heilongjiang party committee and the provincial government called upon practical experience in Heilongjiang to research and formulate concrete measures for punishing corruption and improving party practices. They decided that in the near future we must achieve the following tasks: Clear up and redress problems in housing and home building among party and government cadres; thoroughly sort out and reorganize companies; firmly prevent the children of leading cadres from going into business; assign vehicles strictly according to regulations; stringently control leading cadre travel abroad; strictly forbid the use of public funds for junkets; conscientiously resolve unhealthy tendencies in the process of assigning cadres to posts; and earnestly examine and deal with cases of illegality and breaches of discipline. According to our survey, the leaders of most units have given the matter serious attention, and as a result efficient measures have been taken, the effort has made breakthrough progress, and considerable successes have been won since this resolution was made public. This is primarily manifested in the following ways: First, we have made a good start on clearing up and correcting corrupt housing and home-building arrangements among party and government cadres. Provincewide, we have already cleared out an initial count of 1,422 people who misused funds to build

private houses; we have evicted nonregistered residents from 8,855 public housing units; we have ferreted out 1,160 people who used public funds, totaling 1,926,000 yuan altogether, to fix up their homes; and we have investigated and taken care of 357 individuals who have breached discipline in their housing or home-building arrangements. Second, the use of public funds for feasting and banqueting has been significantly restrained. Most places have changed their method of accepting and feeding customers, and have implemented a divided meal system. This has effectively curbed the use of public funds to buy meals. Nearly 400 restaurants have even been closed down, and turnover has declined across the board in nearly 300 guesthouse restaurants that depend on the profits from banquets, but that have removed their signs while they wait and see what happens. Third, we are rapidly fulfilling our intent to assign vehicles strictly according to regulations. Most of the leaders of our 14 cities and prefectures and the various departments directly administered by the province have eliminated special cars for commuting to work: Most people commute collectively, and others ride bicycles or walk. Heilongjiang has now stored for safekeeping 618 vehicles that had been assigned improperly and received 4,713,000 yuan in fines. Fourth, we have made new progress in straightening out and rectifying company operations. Provincewide, we have also canceled 628 companies for cause and launched a comprehensive audit of companies of all types. Fifth, we have effectively brought foreign travel and junketing by leading cadres under control. As of the end of 1989, nine different groups and 118 individuals from Heilongjiang had been deterred from traveling abroad. Particularly, we have corrected the problem of using public funds for "day trips" into the Soviet Union. Sixth, we have gained notable success in investigating and handling cases of illegality and breaches of discipline. Between January and September 1989, 8,521 such cases were registered, 104 public inquiries were held concerning units higher than the county level, and 550 cases concerning party members and cadres were handled—of which 10 involved cadres from provincial-level departments or offices. This effort played a very useful warning and educational role.

In sum, Heilongjiang has truly achieved results in its campaign to clear up the public's "nine concerns," and has thus received the endorsement of the masses. But this is only a good beginning. We must not overestimate the success we have already had, because in reality problems persist which cannot be ignored: 1) Progress in implementation has been uneven: Leaders have shown concern, measures have been competent, and results have been obvious in about 30 percent of the cases; leaders have shown some concern, taken some steps, and achieved some success in about 60 percent of the cases; and response has been ineffective and action sluggish in about 10 percent of the cases. Those of the "nine concerns" that are easily handled have already seen results, whereas those that are extremely difficult are only superficially understood and present us with a

formidable task. 2) Leaders of some localities and units are irresolute and do not have a firm attitude; some are content to remain mediocre, afraid to act as an example in isolation; some hesitate, waiting to see what happens, and so are slow to act and unable to take the initiative to solve problems; and some assume the mantle of leadership but do not venture into battle—they act only when pushed to do so. 3) Correction efforts have no effect: Some places and units respond only to general calls, producing many superficial essays on the subject but doing little of substance; some neither resolve nor redress the discovered problems—they just wait and watch, and as a result implementation has no evident effect.

What has allowed these problems to appear? As a result of our investigation and analysis, we feel that the main reasons are as follows:

First, punishing corruption is at odds with efforts to reform and open up to the outside world. Some people mistakenly believe that invitations and gifts to visitors, acceptance of sales commissions, ostentation and extravagance, and displays of luxury are a necessary part of China's campaign to reform, open up to the outside world, and develop a commodity economy. They regard improving honesty as old-fashioned and as an obstacle affecting economic development. They even go so far as to attribute the economic "slide" and the market sales "slump" to the results of the anticorruption campaign. These people are naturally indifferent to whether we succeed in handling the "nine concerns."

Second, there are fears that the individual will lose his vested interests. Some leading cadres beset with various problems are afraid that correcting others will ensnare themselves and make a mess of things, and that they will not only lose their homes, money, and cars, they will also be punished by the party, the government, and the law. Still other leading cadres seek to be worldly wise and play it safe: They are afraid that if they catch the guilty parties, not only will their future efforts be harder, but they may also lose votes. As a result, they tackle the "nine concerns" in a perfunctory manner and produce smoke, but no fire.

Third, some people, drawing upon what have been called the negative lessons of the past, are afraid that those who correct their behavior first will suffer. Originally, everyone, at all levels, was to work together to punish corruption and instill good party practices. But in the past idle talk proliferated, while practical action was scarce. Sometimes things got done and sometimes they did not, but even when action was taken it was intermittent, and queer things like the correction of "deviations" appeared. The result was that we were repeatedly unable to put a halt to some corrupt phenomena and evil influences, and they continued to grow in intensity, so that those units that had reformed first fell into difficulties and those that had actively investigated the problems grew dejected. It is no wonder that these people are no longer willing to be the "first to stick their necks out."

It has already been several months since the decision of the provincial party committee and the Heilongjiang government was put into effect provincewide. Looking at the situation overall, most of the mobilized plans and surveys to expose the real situation have essentially been completed, and now we are entering the key phase of inspection and rectification. If we persist resolutely we can win a decisive victory; otherwise all our efforts may be for naught, we will go down the same old disastrous path by merely going through the motions, and we will break our promise to the people. In order to handle the "nine concerns" one by one and steadfastly grapple with and punish corruption, we must focus in the future on resolving the following problems:

First, we must intensify ideological education for party members and leading cadres and raise their consciousness about personal honesty and penalizing corruption. Of course, our party members and cadres are good for the most part, but there are also many problems that originate primarily in party organizations and among party members and leading cadres themselves. Many party members and leading cadres are responsible for some of the trends toward wasteful corruption in the past few years. These individuals have cut themselves off from the people, sought personal privileges, pursued wealth and material pleasure, bartered away principles, used the powers of office for private gain for themselves or their family and friends, and even seriously broken the law and violated discipline, inspiring extreme discontent among the masses. If we do not clean up the corruption that has appeared in the ranks of party members and leading cadres, then honest construction and winning the confidence of the people are nothing more than empty phrases. It is undoubtedly absolutely essential that we work hard to punish corruption, yet this is merely a stopgap measure. To effect a permanent cure we must focus on and intensify ideological education among party members and leading cadres, and ensure that they always bear in mind that they are Communist Party members and public servants serving on behalf of the people. In this way we can improve the strength of their immunity to bad influences and raise their anticorruption consciousness. Reviewing the problems that persist in Heilongjiang's assault on the "nine concerns" further demonstrates the necessity and urgency of enhancing ideological training for party members and cadres. Just think, how could people who make anticorruption speeches, but who are themselves tainted, persuade other people and lead the fight against corruption? How could there be no resentment or passive, perfunctory results? Only if we enhance their ideological training, make them change course, and send them into political battle with a clean conscience can cadres achieve the initiative to lead this fight. Similarly, as for those who, for various other reasons, have doubts or perform their jobs in a perfunctory manner, only by intensifying ideological education can we make them realize, deep down, the crucial importance of addressing the "nine concerns," and only then can we eradicate

their misgivings and make them abandon their distracted thinking and bravely and conscientiously take the lead in vigorous enforcement. Therefore, if we are to address the people's "nine concerns" and win the fight against corruption in Heilongjiang, we must never relax our efforts to ideologically educate party members and leading cadres at all levels.

Second, we must strengthen systems construction in order to consolidate the gains we make through addressing the "nine concerns." When we have rectified discipline and put a stop to unhealthy trends in the past, the following scenario has often occurred: When some kind of unhealthy trends and evil practices have run rampant, we have "conscientiously" applied the brakes for a time, but afterward we have failed to establish essential systems to guard against a recurrence. This ensures that certain problems, once resolved, will recur at the first opportunity. Not only do we repeatedly fail to prevent this, but once the problem recurs we lose popular support. We must absorb this lesson conscientiously. Right now, units, particularly those departments responsible for handling the "nine concerns," in addition to continuing in implementation, must work vigorously to tackle each problem, attain success, and consolidate each achievement. The systems we establish must be scientific, rational, and tightly organized; they must be operationally feasible; and they must contain provisions for supervision, inspection, and penalization. Externally we must persist in opening administrative systems to public scrutiny, and internally we must establish a strict system of job responsibility, ensuring that people within and outside the party can lawfully scrutinize operations and urge party members and cadres to be strict with themselves, scrupulously adhere to discipline, guard against the recurrence of eradicated evils, and ensure that completed tasks are truly realized.

Third, we must rigorously enforce party discipline. Our survey reveals that some of the "nine concerns" have not been addressed or have not been tackled with notable success. One of the reasons for this is that some localities and units have not set to work to deal with corruption. The problem is obvious: They have neither corrected nor cleared up the corruption, and although they have investigated some problems, they have handled offenders too leniently and have failed to satisfy the public. Consequently, it is essential that we strengthen punishment for corruption and enforce party discipline. As for those individuals who now "meet each move with a countermove" or "fail to enforce orders and prohibitions," or for those who use power for private interests, to bribe customs officials, or for filthy bribe-taking or other serious corruption, we must investigate and tackle each case as we discover it and let the public see our determination to punish offenders. As we enforce party discipline, we must especially stress the principle that everyone is equal before this institution. Anyone who violates party discipline or the law of the land must be dealt with severely, regardless of the height of his post. We absolutely cannot permit "untouchable officials"—

we cannot treat highly placed individuals leniently while we deal severely with humble people. Nor can we ever again allow a note, phone call, declaration, or hint from some leading cadre to influence us to let someone who has violated party discipline or national laws go scot-free. We must firmly protect the solemnity of party discipline.

Fourth, we must integrate the "sudden attack" with the "protracted war," and carry the fight against corruption through to completion. The various kinds of corruption that appear within the party not only inspire strong public discontent, they also create huge losses in party and individual undertakings. In order to win public confidence and improve the party's coherence and fighting capacity, we absolutely must concentrate our time and effort on an all-out "attack" on the problem now provoking such an intense public reaction. Experience verifies that this trend toward checking the rampant spread of corruption increases public confidence in our party. But this certainly does not mean that just because we have won several battles we can now holster our guns and tether our horses. In fact, some of the matters we have "attacked," so to speak, have been shallow surface problems that could be tackled in this way and produce instant results. However, there are some profound, complex problems that I am afraid cannot be effectively resolved by this method. For example, the problem that everyone complains about—that of leading cadres occupying all the housing or privately building housing that exceeds regulations—is very complex and confronts clean-up efforts with significant obstacles. We cannot avoid investing a long-term effort in the process. As for the problem of filthy bribe-taking, most of the cases that have been cleared up have been reported by the masses, and were cases in which a certain amount of money had already been taken. Those nobody knew about, however, and that were not cleaned up until the official voluntarily surrendered, have been in the minority. The majority of these cases remain hidden, and it is still possible that they may slip through the net. There is no way we can thoroughly resolve this kind of problem without a sustained effort. It is evident that the anticorruption fight is a long-term responsibility that runs through the entire process in the initial stages of socialism. Because the soil and conditions that spawn corruption will exist for a long time in our society, so long as they do not change it will be difficult to avoid the spread of corruption. The problem is that we cannot allow it to spread unchecked: We must fight to nip it in the bud as quickly as possible. Therefore we must have an ideology of long-term battle against corruption, and persist in integrating "sudden attacks" with a "protracted war." As soon as any corrupt practices begin to proliferate we must "attack" and annihilate them; simultaneously we must unremittingly resolve and rectify any new problems of corruption that appear. We must conscientiously implement the policy of "first standing resolute, and second enduring for the long term," to carry the anticorruption fight through to the end.

### **Enterprise Manager, Party Committee Roles Coordinated**

90ON0330A Shenyang LILUN YU SHIJIAN [THEORY AND PRACTICE] in Chinese No 1, 5 Jan 90 pp 28-29

[Article by Hui Guangyu (0932 1639 3768), party secretary of the Anshan Coal Gas Company: "Kindred Spirits Join Forces To Operate Socialist Enterprise Well"]

[Text] "The enterprise law" established the factory manager as the key position in enterprise production and management. Following the Fourth Plenary Session of the 13th CPC Central Committee, the leading role of the party organ in the political arena was also clarified. Drawing from the positive and negative experiences of historical and current times, the Communist Party summarized the new structure of party-government relations in socialist enterprises with Chinese characteristics. With this in mind, how are we to bring party-government relations into line, coordinate division of labor, pool our efforts, and jointly operate enterprises well? I believe we must solve the following four key problem areas to do this.

#### **I. The Party and Government Must Stand for High-Quality Reform, Recognize the Correctness of This Structure, and Be "Combined in Their Determination"**

Enterprises are basic economic units that have independent management and accounting in the production and circulation of goods. The fundamental mission of these enterprises is to develop productive forces and create value in order to satisfy the ever-increasing material and cultural needs of the people. The factory manager is the representative of the *legalis homo* of the enterprise, and bears direct responsibility for organizing and directing production and management activities, the manager has a clear goal for his term in office, and occupies a "key management" position.

Because the Communist Party is a political party of the working class and the vanguard of the working class, and since the enterprise is the place where the working class is most concentrated and the class base most solid, the party's grassroots organizations in enterprises should be the nucleus for propagating and implementing the basic line of the party and for upholding a socialist orientation. These organs should also become the nucleus for uniting correct and effective ideological and political work with relying on the leading role of the party member, and for uniting the vast numbers of workers and staff members. It can also be said that the nature and position of power of the party's proletariat vanguard determines the political core position of the party organ in enterprise.

China's enterprises are socialist enterprises. This requires enterprises to act as commodity producers and managers; they must work on material wealth for social progress and expand the supply of necessities while developing and training qualified personnel. It is an important responsibility of enterprise party organs to

build a contingent of workers and staff members who "uphold the four cardinal principles." Consequently, the party organs giving play to their role as the political core in enterprise is also determined by the nature of socialist enterprise.

The factory director responsibility system is a major reform of the enterprise leadership system and a key project in the party's overall reform. Experience has shown that no matter whether it is "centralized" leadership by the party committee such as what followed the revolutionary war or a "system of one-man leadership" taken from foreign countries, neither of these suit the objective needs for developing a socialist commodity economy under the new circumstances. Neither do these favor the party committee focusing its attention on party building and putting its energy into ideological and political work. The situation of "secretaries holding multiple posts, deputy positions, and doing spare-time work" that emerged during the former stage was caused by Comrade Zhao Ziyang's weakening the party leadership, it was not a consequence of carrying out the factory director responsibility system. Carrying out the parts of the "enterprise law" that deal with the position and function of the party committee in enterprise must be complete and supplemented. Proceeding from the actual condition of enterprise, this is an important measure adopted to lighten the pressure on factory managers. At present, an enterprise is not a pure economic organization, but in a sense is still a "small community." Making it clear that the major task of political work has been given to the party committee will allow the factory manager to concentrate most of his energy on production and management. Factory managers should look at the establishment of the party committee in this core position as a way to set right the situation concerning the weakening of party leadership. They should, under the conditions of reform and opening up, seek to create fresh experiences but not violate "the enterprise law." Only if the party and government both affirm the factory director responsibility system and also affirm the political core position of the party committee in enterprise, can their two ways of thinking be changed into one mind and allow them to form into a joint force for operating socialist enterprise well.

## **II. The Party and Government Should Join Forces To Thoroughly Implement the Basic Line of the Party, and Be Determined To Achieve "Mutual Unity"**

Joining the forces of the party and government is not just an unprincipled act of striving to have "two good brothers," but is using party principles to make a combined fighting force. If this is the case, in what problems are party principles currently being displayed? The following was clearly pointed out by Jiang Zemin during his "speech" at the 40th founding anniversary of the PRC, "when we are formulating and implementing general and specific policies, measures, and plans, we must continue to use an organic combination of the four cardinal principles and reform and opening up, and implement the specifics of the four cardinal principles in all types of

work." This is the starting point and the place that needs to be maintained in the respective work of the party and government; it is also the point where the forces of the party and government are unified. The reflection of this unification point within enterprises will result in the socialist orientation of the enterprise being upheld. There are many differences between socialist enterprise and capitalist enterprise, but these differences can be condensed into four points of socialist enterprise: First, continually increase the economic and social benefits of enterprise while maintaining strict adherence to the general and specific policies of the party and state as a prerequisite. In particular, we must have as a precondition that social benefits will not be harmed when carrying out production and management of enterprise. Second, not only achieve economic results but also attain political results. At the same time we are doing a good job of enterprise production and management, we should also foster a contingent of workers and staff members who "uphold the four cardinal principles." Third, we must recognize that the masses of workers and staff members are the masters of enterprise and consciously respect this position of master held by the workers and staff members. Fourth, we must uphold public ownership of the means of production. These four points are fundamental requirements in the basic line of the party, and give concrete expression to enterprises implementing this basic line. This requires that factory managers and party committees unite their thinking in this area; when organizing production and management, the factory manager must not forget to implement specific areas of the four cardinal principles in all aspects of work. When considering improved management to continually raise economic benefits, the factory manager must not forget to educate the people in Marxism-Leninism and Mao Zedong Thought. He must give thought to turning out talented personnel as well as achieving results. In carrying out all aspects of political work, the party committee should uphold the principle that the party should supervise the party, work hard at party building and conducting ideological and political work, and not forget the principle that political work is subordinate to and serves economic work. This will enable guaranteed supervision by the party committee to become the lifeblood by which the enterprise's production and management goals are realized. Only if both the party and government adhere to these principles, consciously use the basic line of the party to guide their own thoughts and actions, and not proceed from their own vested interests or make an issue of who has more authority, will the joint force formed between the party and government have a firm ideological foundation. This will also enable them to quickly use party policies and principles to unify their differences of opinion concerning certain specific problems.

## **III. There Should Be a Scientific Separation of Work Between the Party and Government and a Conscious Effort To Form "Dual Positions"**

Because the functions, content, style, and methods of work of the party and government in an enterprise are

different, it is necessary to carry out a certain division of work. The factory manager is the sole legal person of the enterprise, and the one with primary responsibility for production and management. The party committee is at the core of political work and should be responsible for the ideological and political work of overall leadership. However, according to the basic line of the party, all these areas are the joint responsibility of both party and government. Speaking from the point of ideological and political work, if the factory director deals only with production and not ideology, pays attention only to "receipts" and not "minds," and relies solely on material things as encouragement and money as motivation, he will cause disorder in the ideology of workers and staff members, even to the point of leading some along the wrong path. This will also not be favorable for workers and staff members to make ideological progress, and be even less favorable for enterprises development and for raising the quality of all the people. However, just because the party committee acts as the political core, we cannot look at all ideological and political work in an enterprise as the sole right of the enterprise party committee, deny the necessity of having administrative cadres carry out ideological and political work, and regard the factory manager carrying out ideological and political work as "a dog eating mice." Looking at this from the aspect of production and management, ensuring that the enterprise has a socialist orientation is an important responsibility of the party committee, and ensuring completion of various production tasks is a major component of the party committee's guaranteed supervision. A party committee that does not understand production and management, is not concerned with production and management, and does not participate in the factory manager's decisionmaking or check on its orientation, is just engaging in idle talk of guaranteeing supervision. The party should be at the core of political leadership and it cannot be separate from organizational and ideological leadership. If it is not involved in utilization assessment of cadres, but says it upholds the principle of party supervision over cadres, then this is also just idle talk. Because of this, we must not regard the party committee's interest in the condition of production and management and its interest in the work of cadres as "infringing on the authority of others and exceeding one's position." The enterprise factory manager and party committee, when conducting division of work for ideological and political work and production and management aspects, should basically follow the principle of "there being a principal and subordinate, work in coordination, have overlapping responsibilities, and complement each other." In accordance with the actual situation of the enterprise, ideological and political work should have the party committee as its core, key on doing a good job of systematic education for cadres, stress party building, and pay special attention to cadre assessment. The factory manager should assist in and put emphasis on ideological and political work in production and management activities and provide the necessary material conditions for spiritual and cultural development. In this way, it will help to

give full play to the party committee's role as the political core, to carry out ideological and political work in a thorough manner and at all levels, and to strengthen the building of a worker and staff member contingent that "adheres to the four cardinal principles." This will also enable the factory manager to carefully consider problems in his production and management decision-making, to avoid creating any unnecessary ideological fluctuations for workers and staff members, and, in the process of directing production and management, to conduct ideological and political work in a timely manner and in the right direction. In "the enterprise law," the decisionmaking process for key problems is clearly laid out, the factory manager will put forward a proposal, the party committee will then engage in discussion, and the factory manager will earnestly listen to the opinions of the party committee. After the factory manager makes his decision, the party committee will then lay out the role of the party organs, carry out ideological and political work for workers and staff members, give play to the functions of mass organizations, and carry out other measures to promote and ensure the victorious realization of production and management goals. If a scientific and realistic division of work can be carried out between the party and government and if they can achieve "dual positions," then expression will be given to a joint force formed between the party and government.

#### **IV. Both the Party and Government Need To Proceed From the Overall Situation of Work, and Consciously Work Toward "Dual Support"**

Mutual support is an objective requirement for the party committee to carry out its role as the political core and for the factory manager to carry out the role of "key management," and it is an important duty of both. Operating socialist enterprise well is the joint responsibility of both the party and government. Even though the factory manager holds the key position in enterprise production and management, carrying out decisionmaking in production and management and realizing production and management goals cannot be separated from the guaranteed supervision by various organs of the party and the education of party members to perform their model vanguard role. It cannot be separated from the party's role to uphold ideological work and educate the masses of workers and staff members to utilize their role as masters to complete tasks. It cannot be separate from the role of the party organ to coordinate relations with trade unions and other mass organizations so that they can jointly give play to their function and roles in order to realize production and management goals, and so forth. Even though the party committee holds the core position in politics, it cannot be separate from the factory manager providing the conditions for production and management, and must carry out guaranteed supervision on an expanded scope; it cannot be separate from the factory manager supplying the necessary material conditions for spiritual and cultural construction, and enabling ideological and political work to have a material base; it cannot be separated from interchange among cadres, and should carry out overall planning; and

so forth. This requires that both the party and government be able to beneficially strengthen and perfect party leadership, proceed from the overall situation of beneficially

strengthening and perfecting enterprise production and management, have mutual understanding, mutual support, be united as one, and jointly operate socialist enterprises well.

### Recent Import-Export Trends Discussed

90OH0453A Taipei CHING CHI JIH PAO in Chinese  
17 Feb 90 p 7

[Article by Hsiung Chuan-hui (7160 0278 1979): "Exports Showed Only Moderate Increase Last Year, a Worrisome Sign: It Is Imperative That We Increase Domestic Demands and Accelerate Economic Growth"]

[Text] The five-year plan to increase market dispersion will run out in 1992, but Taiwan's exports have begun a moderate growth period last year; we no longer shine like we used to. According to Board of Foreign Trade analysis, if we fail to seek appropriate countermeasures and capture some important and new markets to expand export, export growth will continue to fall below the 10-percent mark, and that is something we should be concerned about.

According to the Board of Foreign Trade, so long as the export growth rate remains below 10 percent, if we want to sustain seven percent economic growth at home, we must increase domestic demands, encourage civilian consumption, and increase public spending.

In analyzing Taiwan's import-export growth situation in recent years, MOEA's [Ministry of Economic Affairs] Board of Foreign Trade discovered that, although this

country's import, export, and entrepot trade have continued to grow year after year, there are dissimilarities in their trends: the import growth rate was as high as 42 percent in 1988 but plummeted to 5.3 percent in 1989 (last year); for this year, the Board of Foreign Trade is estimating a 12.5 percent growth, a slight improvement.

As for exports, they grew 34.7 percent in 1987 but slowed to 9.3 percent in 1989, ushering in the single-digit era. The Board of Foreign Trade forecasts single digit increase in exports for this and next year, putting us in the moderate growth period (see table below for detail).

This situation worries the Board of Foreign Trade. Moreover, the five-year plan to increase market dispersion expires in 1992. If there are no countermeasures, it is not likely that we will ever see significant export growth.

Take the Japanese market for example: In 1987, Taiwan's exports to Japan rose 53 percent; 1988 saw 25 percent growth, and by 1989, it dropped to a meager five percent. At a time when we desperately need to reduce our trade deficit with Japan, this situation tells us that we are going backwards.

The Board of Foreign Trade indicate that plans will be drawn up in the future to assist the merchants to capture the important and new markets and strengthen the unhealthy export situation.

**Taiwan's Actual and Estimated Import-Export Growth Rates**

Source: Board of Foreign Trade							Unit:
	1986	1987	1988	1989	1990	1991	1992
Export Growth Rate	29.6	34.7	13.0	9.3	8.0	9.6	11.0
Import Growth Rate	20.2	44.7	42.0	5.3	12.5	13.0	14.5
Entrepot Trade Growth Rate	25.8	38.5	24.5	7.5	10.0	11.1	12.6

### Editorial Urges Adjustment in Trade Policy Toward PRC

90OH0454A Taipei CHING CHI JIH PAO in Chinese  
21 Feb 90 p 2

[Editorial: "Quicken the Pace and Make Major Changes in the Trade Policies Toward the Mainland"]

[Text] According to reports, the Ministry of Economic Affairs is considering lifting control over indirect trade and investment in the PRC. They are considering allowing mainland companies to come to Taiwan to do business; applications will be given consideration on individual basis. They are also considering lifting all controls over indirect investments in the mainland, except for the high-tech industries and technologies developed by the Industrial Research Institute [?]. We feel that, with today's increasing economic and trade contacts between the two shores of the strait, with indirect trade increasing year after year, and especially with indirect investments increasing at such an alarming rate, we should really support the Ministry of Economic Affairs' move to lift control over economic and trade activities with

the mainland. We urge the authorities to quicken the pace and drastically revise the economic and trade policies toward the mainland to facilitate the rapid development of economic and trade interchange between the two shores.

Under Taiwan's peculiar political and diplomatic circumstances, the authorities have always lagged behind the civilian entrepreneurs in developing foreign economic and trade relations, and this is even more true with respect to economic and trade relations with the mainland. Generally, if we put aside the political factors, funds and commodities tend to move among the regions (countries) to maximize profit, and foreign (international) trade and investments will develop as a result. If we add the political factors, as long as the entrepreneurs feel that the profit outweighs the country risks, including credit and political risks, they will continue their foreign trade and investment activities. This is the fundamental reason behind the significant increase in Taiwan's trade and investment in the mainland in the last few years under the peculiar circumstances on both sides. In other words, although there are many uncertainties involving



credit risks and political risks, mainland trade and investment (both direct and indirect) generate not only enough profit to compensate for the risks but more profit than any domestic business or trade and investment in any other country or region can generate.

In recent years, because of the deteriorating domestic investment environment, rising wages, labor shortage, waxing labor movements, increasing awareness about environmental protection, deteriorating public safety conditions, and because of the significant appreciation of the NT dollar, Taiwanese entrepreneurs have been investing heavily overseas and in the mainland. Last month, the news that Wang Yung-ching [3769 3057 1989], an official from the Taiwan Plastics Group [?], was planning to open a plant in the mainland shocked the country. This incident not only reflects the serious state of Taiwan's deteriorated investment environment but demonstrates the inability of the existing mainland trade and investment policies to keep up with today's needs. As a result, more and more people are calling for drastic revision of the economic and trade policies toward the mainland. For example, the National Union of Industries held a board meeting recently and agreed unanimously to urge the government to lift control over mainland economic and trade relations and permit businessmen to make indirect investments and send investigation groups to the mainland. Today, not only the civilian entrepreneurs feel this way, but state-run institutions also want to do business with the mainland. According to reports, MOEA's [Ministry of Economic Affairs] Commission of National Corporations and the state-run institutions under its jurisdiction have just decided to jointly ask MOEA to allow the export of Taiwanese products to the mainland and import of mainland raw materials in the form of indirect trade or barter trade. This move reflects that the domestic businesses, no matter civilian or state-run, are finding it necessary to develop the mainland market.

The pace of the civilian entrepreneurs' mainland economic and trade activities is always quicker than that of the authorities', and the businessmen in foreign countries are always ahead of those in this country. For example, to promote business, Bank of America's International Trading Company recently sponsored an "exposition" to detail the financial services it offers to

domestic entrepreneurs who do import-export business across the Strait of Taiwan. Up to now, although most businessmen who do indirect business with the mainland rely on the financial assistance of foreign banks, such deals are "covert." Bank of America's exposition was quite "unprecedented." The domestic banks realize that it is a market with huge potentials to offer financial services for mainland trade, but because of all sorts of limitations and restrictions, they are forced to sit helpless and watch the foreign banks grab the opportunity. Ordinarily, financial institutions are the vanguards and assume the duty of developing foreign trade and investment, but because the domestic banks have too many worries and misgivings, they seem unable to play this role. This actually reflects once again how unrealistic the existing mainland economic and trade policies are.

In the past, the authorities were concerned mainly about "safety" and "stability" and therefore the adjustments of the economic and trade policies were overly conservative and slow. Today, all developments indicate that we are at a point where we must pick up the pace and make drastic changes in our mainland trade and economic policies. Basically, it is preferable to conduct our mainland trade and investment indirectly at this stage, but under special conditions, we can consider "partial" direct trade and investment. The fact of the matter is, in the true economic sense, there is little difference between direct and indirect trade and investment in the mainland. As for the business disputes that may erupt as a result of increasing economic and trade contacts, we can consider the Union of Industries' suggestion, that is, let them set up a "Taiwan Business Association" in the mainland and, together with Hong Kong or Korea, set up a tripartite arbitration organ to take charge of settling the disputes.

As we all know, Korea is way ahead of us in developing trade with the the PRC and the Soviet Union. In the last few years, Korea has set up nonpolitical economic and trade organizations in the mainland and in the Soviet Union. According to newspaper reports, this fact has been troubling several officials of the Executive Yuan's Economic Construction Committee. We feel that, rather than worrying about it, our government officials should make a determined effort, work together, strive to catch up, and make drastic changes in our policies and open up trade with the mainland to bring about a new economic and trade situation between the two shores of the strait.

### Questions Remain on Legality of British Abode

90ON0357A Hong Kong PAI HSING [THE PEOPLE]  
in Chinese No 209, 1 Feb 90 pp 9-10

[Article by Wen Hui (3306 2547): "The Legal Question Concerning Abode Rights in England"]

#### [Text] A Memorandum Is Not Legally Binding

Much comment has sprouted forth in both England and Hong Kong since Foreign Minister Douglas Hurd's 20 December 1989 announcement to Parliament of a plan to confer full British citizenship on 225,000 Hong Kong residents. The general opinion in Hong Kong is that the British are awarding such residence rights in England to too few. Yet, 10 days later, the PRC Foreign Ministry issued a very sharp opposition, accusing the British Government of violating its solemn promise. Aside from whether the proclamation of the British abode bill violates the Joint Declaration, a bigger problem concerns defining the citizenship of those who have acquired British citizenship but are not leaving Hong Kong and whether they would enjoy British diplomatic protection.

First, let us discuss the legal restraints of the Joint Declaration, which has evoked scholarly commentaries since its proclamation. The conclusion is that whether the Joint Declaration is legally binding lies not in name, but in whether the signing nations intend to define its legal rights and obligations and to assume the legal obligations ensuing therefrom. Aside from the main treaty text, the Declaration has three annexes. And, on the day of the signing of the Declaration, the two nations exchanged two memoranda covering passport and citizenship matters. The crux of the legal restraints lie in Article 7 and Article 8. Article 7 provides that the "People's Republic of China and the United Kingdom jointly agree to implement all the items announced above and all annexes in the Declaration." Article 8 goes one step further by providing that "Both the Declaration and its annexes have legally binding power." The above articles clearly manifest the intention of both countries to implement the content of the Declaration and its annexes. Therefore, there should be no doubt of its legally binding power.

The question is whether the exchanged memoranda constitute a part of the Declaration. Do they have the same legally binding power? The writer feels that they do not. The two articles described above would indicate that both sides consider only the main text and the annexes as integral parts of the Declaration, and an acknowledgement that the nations would execute only the provisions of the main text and the annexes, not any memoranda. Based on the fact that the two nations did not clearly indicate their intention to carry out the contents of the memoranda as described above when they entered upon this treaty, we have reason to believe that the memoranda fall short of being considered treaty provisions.

The way the two nations handled the Joint Declaration, for example when it was registered with the UN Secretariat in June 1985, also shows that the memoranda were never considered to have been part of the Declaration. According to scholarly estimates, this was due to the reluctance by China to let the British make any legal promises to China on the matter of issuing passports—to China, they are all Chinese citizens. As for the issuance of passports by the UK, the Chinese adopted a neither oppose nor discourage stance. Therefore, from a legal viewpoint, this writer does not consider the memoranda to have any binding power. Of course, it would be advisable for both sides to respect the content of the memoranda; otherwise, the fact that one side would violate its own memorandum would spur the other side to do likewise. If that happens, then there would be serious questions as to whether after 1997, Hong Kong residents would be able to use British Dependent Territories citizenship or British Overseas citizenship passports as proper travel documents.

#### British Abode Rights Not in Violation of the Joint Declaration

Going back a step, if the British memorandum is, in fact, a solemn pledge, and does have legal binding power, then will the British abode rights bill violate the Joint Declaration or the memoranda? Judging by the text of the articles, this writer thinks not. The first article in the British memorandum provides: "Any person who, according to laws of the United Kingdom, holds British Dependent Territories citizenship due to the Hong Kong relationship up to 30 June 1997, shall on 1 July 1997 no longer hold such status, but will continue to preserve an appropriate status and continue to hold a U.K.-issued passport, but shall not be awarded rights to assume an abode in the United Kingdom..." Yet the Chinese memorandum also states that "The appropriate government agency of the People's Republic of China shall from 1 July 1997 and thereafter, permit any Chinese citizen in Hong Kong who had been considered to be a 'British Dependent Territories citizen,' to continue to use any travel document issued by the United Kingdom for travel abroad." In other words, both the Chinese and British memoranda provide that the provisions apply only to those people in Hong Kong who, on 30 June 1997, hold British Dependent Territories citizenship by reason of the relationship with Hong Kong and no one else. From this it can be understood that people of other nationalities, such as Americans and Canadians, will not be restricted. Going a step further, all other British citizenships (British citizenship laws classify people into four groups: 1. British citizens; 2. British Dependent Territories citizens; 3. British Overseas citizens; and 4. British subjects) also are not thus restricted.

According to British Foreign Minister Douglas Hurd, those who benefit from the British abode rights bill will change from British Dependent Territories citizens to British citizens. One would guess that, when England revises its citizenship laws, it will revise the first part, i.e., British citizens. So we can say that those who benefit

from the abode rights bill will not be bound by the memoranda of the Joint Declaration because they will be British citizens. It is apparent that much thought had been given to the abode rights bill. As the memorandum only applies to British Dependent Territories citizens, it provides a loophole. If the UK had awarded settlement rights without converting them to British citizens first, then it would have violated the memorandum; now that would not be so.

### Controversy, But Not a Question of Legal Principle

Nevertheless, there is some debate over whether the fact that only a portion of the British Dependent Territories citizens would be converted to British citizens violates the Joint Declaration or the memorandum. Some commentators firmly believe so because the text of Article 2 of the Joint Declaration states "The Government of the United Kingdom announces that, on 1 July 1997, the United Kingdom will return Hong Kong to the People's Republic of China." What is referred to here, in their opinion, includes the territory, the people, and the government according to international law. To change the status of Hong Kong residents into British citizens abruptly so that in 1997 China will get only an empty harbor violates the spirit of the Joint Declaration. On this, the writer feels that there is room for discussion. Consider the case of China getting back sovereignty over Macao, a similar situation. Portuguese citizenship laws have always permitted issuing Portuguese passports to those born in Macao; they may also move to Portugal. Would this then create a future dilemma as a possible violation of any Sino-Portuguese Joint Declaration?

What is even more interesting is the fact that the British asked that, on 30 June 1990, the definition of British Dependent Territories citizenship as stated in the 1985 Joint Declaration be given a broad interpretation (as was expressed by Liao Yao-chu [1675 3852 3796]). This opinion resembles somewhat the one at hand. The British have an obligation to freeze the British Dependent Territories citizenship status of those in Hong Kong who hold it at the time the Joint Declaration takes effect. Of course, this is not unreasonable, but could this not then restrict the amending powers of British citizenship laws, thus indirectly, if not directly, affecting Hong Kong even though it was not specifically designed with Hong Kong in mind? For example, could conferring British citizenship status upon those who would be willing to invest a specified amount of money in England to alleviate England's dire financial straits be a violation of the spirit of the Joint Declaration?

Would international law permit England to amend its citizenship laws so as to award abode rights to a portion of Hong Kong residents moving to England? According to Article 1 of the 1930 The Hague Convention on Some Conflicting International Problems, "Each nation shall determine the citizenship of its population according to its own laws; such determination shall be recognized by each other nation providing it conforms to international law, international custom and generally accepted legal

principles concerning citizenship." Article 2 provides that "The determination of a person's special citizenship status shall be according to the laws of the nation concerned." Basically, international law is national law, scholars and academic bodies of international law have held to the principle that each nation has the power to formulate its own. Yet, because the citizenship laws of a nation may affect other nations, there is a limit, and determining citizenship status for another nation is prohibited. According to a World Court opinion on whether citizenship lies within the sovereign rights of a nation, issued in a Tunisian-Moroccan dispute and one concerning Polish nationality, the restraining phrases "in principle" and "generally speaking" were inserted. In other words, consideration must be given to common international treaty principles. Regarding the proclamation of the British abode measure, the Chinese could invoke the opinion by a scholar of international law that the UK had exceeded the boundary of international law. Clearly, the opinion states that the UK could not confer citizenship upon any person who does not reside in its territory, has no activities, and has no relationship with that country. On the one hand, while it challenges the power of the UK to confer citizenship without that person ever setting foot in the United Kingdom, this is but a theoretical opinion. On the other hand, it evokes the questions of whether Hong Kong is a British territory, whether three unequal treaties have effect, and so forth.

In summary, the writer is inclined to feel that the British abode bill is legally indefensible.

### China Does Not Recognize Dual Citizenship

But the problem does not end here, because Annex No. 3 of the draft Basic Law prescribes that "citizenship laws of the People's Republic of China" apply to Hong Kong. Thus arises the question, what citizenship status do people of Chinese blood born in Hong Kong hold? The situation is further complicated by publication of the abode bill. Further aggravation comes from the fact that Chinese officials and scholars have given different interpretations to Chinese citizenship laws, as have British foreign ministry and Chinese officials concerning the question of citizenship and passport protection for those benefiting from the abode bill. We must thus discuss in detail the Chinese citizenship laws and the question of dual citizenship.

Under accepted principles of international law, no person may hold a citizenship status higher to that of any other person. But since citizenship laws are basically domestic laws, there is no uniform manner in which each nation confers or removes citizenship, such as according to parental blood, place of birth, marriage, or adoption, thus easily giving rise to active international conflict (such as in cases of dual- or multi-citizenships), and passive ones (such as concerning stateless persons). Since there are specific relations of rights or obligations between a nation and its citizenry, citizenship conflicts mean more difficulties for some people, even damage or

loss in cases of litigation or time of war. Thus, efforts are made on the international level to avert conflict through conventions, bilateral and multilateral treaties, etc., and domestic laws to avoid international conflict.

#### **The Majority of the People of Hong Kong Fit Chinese Citizenship Specifications**

The 1980 Fifth National People's Congress passed the first Chinese citizenship law. The main text is rather short, having only 18 articles, and it contributes to today's different interpretations. The ones most concerned with the relationship with Hong Kong are as follows:

Article 3: The Republic of China does not recognize dual citizenship.

Article 4: When either or both parents are Chinese citizens and the person was born in China, then that person is a Chinese citizen.

Article 5: When either or both parents are Chinese citizens and the person is born on foreign soil, then that person is a Chinese citizen. However, when either or both parents are Chinese citizens and live on foreign soil where the person was born, that person holds foreign and not Chinese citizenship.

Article 6: When the citizenship of the parents is undetermined or the parents do not hold citizenship of any nation, if that person is born in China, that person is a Chinese citizen.

Article 8: A person who petitions and is granted Chinese citizenship is a Chinese citizen, but must renounce his former foreign citizenship.

Article 9: Chinese citizens living abroad who voluntarily become foreign citizens or obtain foreign citizenship will automatically lose their Chinese citizenship.

Article 10: A Chinese citizen may petition and be permitted to give up Chinese citizenship upon meeting one of the following requirements:

- a. A close foreign relative.
- b. Settled residence on foreign soil.
- c. Any other appropriate justification.

Article 11: Those who petition and are permitted to renounce Chinese citizenship will forfeit such.

Article 12: No government employee or active military person may renounce his Chinese citizenship.

Article 13: Foreign nationals who once held Chinese citizenship may, with justification, petition to regain Chinese citizenship. Once approved, they may not retain their foreign citizenship.

Article 14: Other than as provided in Article 9, the acquiring, loss, or regaining of Chinese citizenship must be accomplished through a petitioning process. Those

under the age of 18 may do so through their parents or any other lawful representative.

Article 16: The People's Republic of China Public Security Ministry will consider, approve, and issue the appropriate documents in applications for naturalization, renunciation, or regaining citizenship.

From the beginning, China has considered Hong Kong to be Chinese soil. In other words, to have been born in Hong Kong is the same as having been born in China. From Articles 4, 5, and 6, a person born in Hong Kong, or either or both of whose parents are Chinese citizens, or if parental citizenship is unclear but parents are permanent residents of Hong Kong, is a Chinese citizen. I believe the vast majority of Hong Kong's people will fit in one of these.

#### **Chinese Citizenship Laws Have Not Resolved Citizenship Conflicts**

Unquestionably, Article 3 of China's citizenship law has stated the principle that dual citizenship is not recognized. To try to eliminate any active conflicts concerning citizenship, it is further stated in other specific articles: Article 5 prevents the possibility of dual citizenship arising from the place of birth; Articles 8 and 13 prevent dual citizenship arising from naturalization; Article 9 prevents dual citizenship as a result of residence abroad. But this writer feels that these do not solve such active conflicts. Although Article 3 provides nonrecognition of dual citizenship, how would it be enforceable? As China enforces the law domestically, those Chinese holding dual status would be regarded as Chinese citizens without regard to their other citizenship. But this has long been international custom; Article 3 of the 1930 Hague Convention specifies that "Any person with dual citizenship status shall be regarded as a citizen of the respective nation by that nation."

China merely incorporated an international convention provision into domestic law. The question is, if both nations concerned are parties to international litigation, how is an equilibrium achieved between the nonrecognition and any international arbitration? According to the World Court decision in the famous case of *Notterbaum*, in principle and generally speaking, the principle of retaining citizenship is only appropriate in the personal relationship between an individual and his country; that is, it is an internal matter. International standards should apply when a country proposes that other countries recognize the citizenship it has awarded or when it asks that World Court judges recognize its applicability. Thus the citizenship conferred by domestic law does not necessarily act to oppose another country. In other words, internationally, there is little significance to the fact that China's citizenship law does not recognize dual citizenship.

As to enforceability, the citizenship law is silent where a Chinese dual-status citizen does not propose to renounce any citizenship. As to the articles in the citizenship law that prevent dual status, clearly there are loopholes. For

example, a person is born in China and has legal residence there, and one parent is a Chinese citizen but the other a foreigner, and the law is based on citizenship by blood. This person holds dual citizenship from birth and neither Article 5 nor Article 9 would apply.

#### **England Cannot Provide Diplomatic Protection**

Back to the question that most demands our attention, what will be the future status of the beneficiaries of the British abode bill, if they are already Chinese citizens? Since China considers them to be Chinese, yet the UK confers full British citizenship, then they should have dual status. But according to Article 14 of the Chinese citizenship law, except as provided in Article 9, they must apply to the government to renounce their Chinese citizenship. But, there might be no branch of China's Public Security Ministry in Hong Kong before 1997. In other words, except as covered in Article 9, these people would possess dual status. But the clause in Article 9 that provides for automatic loss of Chinese citizenship specifies having foreign citizenship and residing abroad. From this, it can be seen that those benefiting from the British abode bill who, according to the British, do not have to leave Hong Kong would not automatically lose their Chinese citizenship from China's viewpoint.

Actually, any person who does not leave Hong Kong or Macao to live elsewhere and is issued a foreign passport would be regarded as a Chinese citizen. This would apply to Macao residents who are issued Portuguese passports as well. The Sino-Portuguese and Sino-British Joint Declarations have respectively specified that holders of Portuguese passports or of British Dependent Territories citizenship status who stay in these areas will not receive diplomatic protection. Then what about those who do not leave Hong Kong and are given rights under the

British abode bill? The 1930 Hague Convention provided that "A nation whose citizen holds citizenship of a second country may not extend diplomatic protection in case of the second country." This principle was supported by the UK during the 1929 League of Nations hearings. In other words, those covered by the British abode bill would not enjoy British diplomatic protection in either Hong Kong or the mainland. So the British foreign minister's words are clearly wrong. It might be mentioned in passing that based on the decision of the Notterbaum case, using the "actual citizenship" principle, a person who holds a foreign passport would receive no protection from the issuing country upon returning to live or work.

Another question is whether someone covered by the British abode bill who lives in the UK for a short time and then returns to live or work would have already automatically lost his Chinese citizenship. How is the term "settled" in the Chinese citizenship law to be interpreted? Despite an exhaustive search, this writer has not found the actual detailed rules and regulations in the law. The specific provisions of the "resident identification regulations," "law governing foreigners entering," and the "law governing the entry and exit of Chinese citizens" do not specifically explain "settlement." It will have to wait for a future official interpretation. But I did come across a May 1986 "Ministry of Civil Administration Letter of Instruction Concerning Questions Involving Marriage Between a Hong Kong Resident of Chinese Birth Holding a Foreign Passport and a Native Chinese Citizen." It provided that it would be registered and treated as a marriage between a foreign national and a Chinese citizen. But, then would a person under the British abode bill be considered a foreigner after all? This writer cannot answer.

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